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Sixty years on

The transatlantic alliance is frayed, but still necessary

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Politics this week

Jun 3rd 2004
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Terror in Saudi Arabia

AFP

Terrorists linked to **al-Qaeda** attacked the offices of a Saudi oil company in Khobar, on the east coast of Saudi Arabia, then took hostages—specifically, foreign “infidels”—in a nearby residential compound. After a stand-off, three of the four assailants escaped, leaving 22 people dead, all but three of them foreigners.

See article

Lakhdar Brahimi, the UN's special envoy to **Iraq**, named a 36-person cabinet to run the country until a general election in January. Ayad Allawi, a Shia said to be close to the CIA, is to head the government, while a Sunni tribal leader, Ghazi Yawar, will be the interim president. The UN Security Council began debating a draft resolution on Iraq.

See article

George Tenet has resigned as director of America's Central Intelligence Agency. The CIA had been under fire for months over its handling of intelligence in the run-up to the Iraq war. President Bush said he was resigning for “personal reasons”, adding that he was “sorry” to see him go.

See article

Ariel Sharon, **Israel's** prime minister, failed to convince a majority of his cabinet to accept a revised plan for Israel to withdraw from the Gaza strip and to remove all Jewish settlements from it, but said he would continue to persuade his colleagues to back him.

See article

A new report from the International Atomic Energy Agency belies **Iran's** claim that all traces of highly enriched uranium found by inspectors came into the country on imported centrifuge equipment. It also questions the claim that the more advanced centrifuges they found were only for research.

Libya, which tapped into the same foreign supply network, has been more forthcoming. It told inspectors it received advanced centrifuge designs for uranium enrichment on a computer hard-drive and compact discs, not just on paper, making them troublingly easy to disseminate.

Rebels captured Bukavu, one of the main cities in eastern **Congo**, sparking fears that the civil war that ended last year might reignite. UN peacekeepers declined to intervene.

See article

Court out

The trial of 69 suspects charged in connection with suicide attacks that killed over 60 people in Istanbul last November was postponed after the **Turkish** court declared itself incompetent in the light of impending judicial changes. Earlier, a Kurdish separatist group, Kongra-Gel, formerly the PKK, announced the end of a five-year unilateral ceasefire.

France beefed up security by sending some 9,000 troops to Normandy in preparation for the celebration of the 60th anniversary of D-Day. No-fly and maritime-exclusion zones were declared and surface-to-air missiles deployed along the coast. Demonstrations in Paris are banned for a week.

See article

Georgia sent more troops to its border with the breakaway province of South Ossetia to clamp down on smuggling. Mikhail Saakashvili, Georgia's president, has vowed to bring South Ossetia and Abkhazia back under Georgian control. After a showdown in May, the province of Ajaria returned to the fold.

One of **Russia's** foremost TV presenters was sacked from his weekly news programme on the NTV channel after a row over the screening of an interview with the widow of a leading Chechen separatist. The channel is owned by Gazprom, a state-controlled energy firm.

Help at hand

In **Haiti**, a Brazilian-led force of mainly Latin American UN peacekeeping troops took over from a multinational force led by France and America. Their first task was to help with the aftermath of floods and mudslides that left some 2,000 people dead or missing.

At a low-key summit between leaders of the **EU** and **Latin America** in Mexico, the EU expressed hopes of reaching a trade deal with Mercosur and, at an unspecified date, of starting similar talks with the Andean countries and Central America.

In the first week of **Canada's** election campaign, opinion polls showed the opposition Conservative party closing on the Liberal party of Paul Martin, the prime minister.

See article

In **Venezuela**, hundreds of thousands of opposition supporters turned out to confirm their signatures on a petition for a recall referendum on President Hugo Chávez. He complained of “fraud” but hinted that he would let the referendum go ahead.

See article

At least 38 prisoners and a guard died in a three-day prison riot in **Brazil's** Rio de Janeiro. Several prisoners also escaped.

Safe no more

Three foreign aid workers and two Afghans, who, had been trying to set up a clinic, were killed in Baghdis province in north-west **Afghanistan**, an area previously thought relatively safe for foreigners.

The king of **Nepal** reinstated the prime minister whose sacking in 2002 triggered a continuing political crisis.

Twenty people were killed by a bomb at a Shia mosque in Karachi in **Pakistan**, a day after a Sunni cleric was shot there.

It was announced that senior officials from **Pakistan** and **India** are to meet in June, to discuss Kashmir and nuclear confidence-building.

Indonesia expelled the regional head of the Brussels-based International Crisis Group, after the country's intelligence chief described her critical accounts of government actions in Aceh and West Papua as subversive.

See article

A time to remember

AP

George Bush officially opened the first national memorial to the 16m Americans who fought in the **second world war**. The monument, on Washington's National Mall, includes a wall that honours the 400,000 troops who died.

A judge in San Francisco ruled that the ban on **“partial birth” abortions,** signed into law last year, is unconstitutional and compromises a woman's right to choose. The Justice Department said it would challenge the judgment and uphold the will of Congress.

Stephanie Herseth became the first Democrat for ten years to win election to **South Dakota's** lone seat in the House of Representatives. The vote was called after Bill Janklow, a Republican, was convicted of manslaughter after causing a traffic accident.

John Kerry gave the first of several speeches on national security. If elected president, Mr Kerry said his main priority would be to tackle nuclear terrorism, which he called the greatest threat to America. He proposed setting up a White House office to co-ordinate efforts at securing international atomic arsenals.

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Business this week

Jun 3rd 2004
From The Economist print edition

Green's field

Philip Green, a notoriously forthright retail tycoon, launched an unwelcome bid worth some £9 billion ($16.5 billion) for **Marks & Spencer**, one of Britain's leading retail chains. Aware that the bid was imminent, M&S's board had sacked its top two managers and recruited high-profile outsiders to turn the ailing retailer around. The firm promptly rejected the bid.

See article

Fiat named Sergio Marchionne as chief executive to replace Giuseppe Morchio, who quit three days after the death of Umberto Agnelli, chairman of the embattled Italian industrial conglomerate. Mr Morchio reportedly departed after he was passed over for the chairmanship in favour of Luca di Montezemolo, boss of Ferrari, Fiat's sports-car division.

See article

Mel Karmazin unexpectedly quit as president and chief operating officer of **Viacom** and number two to Sumner Redstone. Mr Karmazin enjoyed a difficult relationship with the media giant's boss and is rumoured to have quit after hearing that he was not on the succession shortlist.

See article

Drug bust

Eliot Spitzer, New York state's attorney-general and scourge of financial wrongdoing, filed a lawsuit against Britain's **GlaxoSmithKline**. Mr Spitzer alleges that the drug giant fraudulently withheld and misrepresented information suggesting that Paxil, its blockbuster antidepressant, was unsafe and ineffective for children.

Anheuser-Busch raised its stake in **Harbin Brewery** to 36%, obliging it to make a bid for full control worth some HK$5.6 billion ($720m). **SAB-Miller**, a London-listed South African brewer, which owns 29% of Harbin, had bid HK$4.3 billion for the Chinese beermaker but withdrew its offer after the approach from the American firm.

See article

A consortium led by **Accenture** won a $10 billion ten-year contract to provide border security for the American government. The consultancy's system will use biometric data to vet entrants at border posts and airports in an effort to keep terrorists and other undesirables out of the country.

Hyperbole

Ryanair blamed competitors, the war in Iraq, high oil prices and a weak pound after pre-tax profits for the year to March fell by 14% compared with a year ago to *euro*228m ($267m). But the Irish low-cost airline said that passenger numbers were up by 47% and that it was well placed to survive the “bloodbath” that it expects for budget carriers later in the year.

Days after a Moscow court ordered **Yukos** to pay $3.4 billion in back taxes, another court delivered a further blow. It ruled in favour of **Sibneft**, a rival Russian oil company, deeming that a complex share-swap used to cement a merger with Yukos was illegal, annulling a deal that Sibneft has long sought to escape. Yukos had hoped to settle the tax bill by selling Sibneft; Yukos's shares plunged.

See article

Mitsubishi Motors said it would recall over 160,000 vehicles made between 1992 and 1997 to repair 26 defects. The Japanese firm admitted that the problems were discovered in 2000 when it owned up to other faults that resulted in a damaging mass recall.

Oil on troubled markets

Oil prices shot up to record highs of over $42 a barrel after a terrorist attack on foreign workers in Saudi Arabia heightened fears of disruptions to oil supplies from the Middle East. Prices fell after OPEC pledged to boost production by over 10% ahead of its meeting commencing on June 3rd.

See article

Newbridge Capital hopes to become the first foreign company to control a Chinese bank by agreeing to buy 18% of **Shenzhen Bank** for around $150m. The American private-equity firm wants a foothold in China's huge market; the Chinese are keen to welcome foreign capital and more rigorous practices into a banking system plagued by bad loans.

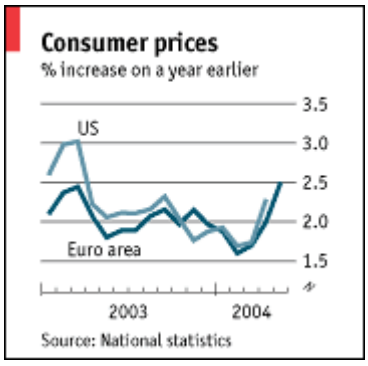
See article

China tried to control its overheating economy by asking lenders to halt loans on infrastructure investments not approved by the government, including government buildings, motorway construction and golf courses.

Argentina's government unveiled a new, less stingy and “final” offer to holders of its defaulted bond. The government said that it would now take overdue interest into account. The bondholders' group rejected this latest offer and repeated its calls for negotiations.

See article

Inflation in the euro area surged to a two-year high in May as the effects of a rising oil price began to show. Consumer prices rose by 2.5% from a year ago compared with an increase of 2% in April. The European Central Bank, which has set a 2% ceiling for inflation, spoke of a “need to avoid overreacting”.



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Europe and America

Sixty years on

Jun 3rd 2004
From The Economist print edition

The divisions over Iraq must not mark a terminal split between Europe and America

AP

THOUGH there have been serious fallings-out before, this weekend's commemoration of the D-Day landings of 1944 finds relations across the Atlantic at an unusually low ebb. George Bush and Tony Blair, visiting the Normandy beaches to remember the day when Allied troops swarmed ashore to rescue mainland Europe from Hitler, cannot but feel bitter towards the present leaders of France and Germany for their behaviour before and after last year's war in Iraq.

Whatever mistakes of tactics or judgment America and Britain may have made, Mr Bush and Mr Blair saw the liberation of Iraq from Saddam Hussein as an urgent and honourable cause. Rightly or wrongly, they believed the safety of the West itself was at stake. Jacques Chirac and Gerhard Schröder did not agree. However, the French president and German chancellor did not merely withhold their support. They worked hard to obstruct what their allies were trying to do. This was a highly unusual departure from the unwritten rules. America did the same thing in reverse, when it forced France and Britain to stop their invasion of Egypt in 1956. But the habit of Europe since the second world war has been to defer to the senior partner. At most, as in Vietnam, the Europeans have abstained, not gone out of their way to thwart American designs.

Appeasers versus warmongers

Following Iraq, commentators have therefore been quick to pronounce the alliance dead. The crude version of the argument from over-excited Americans is that Europeans are happy to be saved by America when the knife is at their throat (remember Hitler, the cold war, the American-led rescue of Muslims in Bosnia and Kosovo) but have blinded themselves to the new dangers of rogue states and Islamic terrorism, and can therefore not be relied on by America, which must save the world alone. The crude retort from some no less excitable Europeans is that an America unchecked by the Soviet Union and unhinged by September 11th has lost its bearings, thrown caution and international law to the winds, and is fuelling terrorism by seeming to pursue a crusade against Islam.

Both sides of this argument are unpersuasive. They imply a permanent divergence across the Atlantic on deep questions of how to keep the world safe. But Iraq was not like this. Unlike the invasion of Afghanistan, which Europe supported, it entailed a fine judgment about the balance of risks and outcomes. In some ways, it was a one-off, turning on whether Saddam should be allowed to defy an

arms-control regime the UN Security Council had clamped uniquely on him, and on whom the burden of proof should lie. Besides, the war divided opinion within both continents, not just between them. Americans as a whole have seemed readier since September 11th to feel themselves at war, and to hit back accordingly. This separates them from many Europeans. But policies, politicians and intellectual fashions change. In November, America might elect a new president who, even if he will not say that the war was a mistake, is not likely to repeat such an exercise. For good or ill, the less than elegant outcome in Iraq may dampen America's appetite for military solutions in future.

However, the alliance-is-dead argument also comes in a rather more persuasive version. This holds that deep changes had begun to undermine the alliance long before Iraq.

The end of dependency

The second world war left America with a military, economic and moral pre-eminence that made it the natural leader of the free world. Its military power is still unsurpassed. But now Europe is rich too, and—more than two centuries after America's constitutional convention—inventing its own continent-wide system of power in the shape of the European Union. Mr Chirac wants the EU to be a counterweight to America. But even Europeans who do not share the Gaullist horror of a “unipolar” world think differently nowadays about the alliance. Free from the fear of Soviet invasion, they do not feel the same need of American protection, and so are less inclined to defer. Some Germans were ashamed when Mr Schröder found it electorally convenient in 2002 to denounce Mr Bush's “adventurism” in Iraq. Others greeted this as an overdue coming of age.

You do not save a partnership by glossing over such profound changes in interests and attitudes. The transatlantic alliance will probably never again be as strong as it was when the Red Army was poised to storm through the Fulda gap and NATO was poised to repel it. And although a new and common peril has arisen in the form of Osama bin Laden and his *jihad* against “Jews and Crusaders”, this is not likely to provide the same sort of transatlantic glue. The nature of the new threat is too amorphous, and governments hold too many differing views about the right ways to deal with it. In the meantime, having finished its half-century post-war task of making Europe “whole and free”, today's America has shifted its focus to threats farther afield. Having been let down by France and Germany in Iraq, it may prefer in future to form ad hoc alliances with other countries instead of turning instinctively, as in the past, to a Europe that spends too little on defence and seems allergic to using what little military force it has.

Absent the Soviet Union, an estrangement of this kind need not be fatal to world order. But it would still be a needless loss. When they act in unison, the rich democracies deploy overwhelming political and moral as well as military force. And there is much on which they should still co-operate: securing Afghanistan, sorting out Palestine, spreading democracy to the Arab world, persuading Iran not to build an atomic bomb. Some Americans think they can do all this alone; Iraq did after all show that France and Germany cannot prevent America from going to war if it wants to. But their opposition has made the post-war job in Iraq very much harder. And that is where to start mending relations. For all their pre-war differences, both sides have an interest now in making sure that Iraq enjoys peace and prosperity rather than degenerates into another terror-breeding failed state. The UN this week appointed an interim government for Iraq. What better moment to put aside the recriminations and work together for that?

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Richard Cobden

An anti-poverty hero

Jun 3rd 2004
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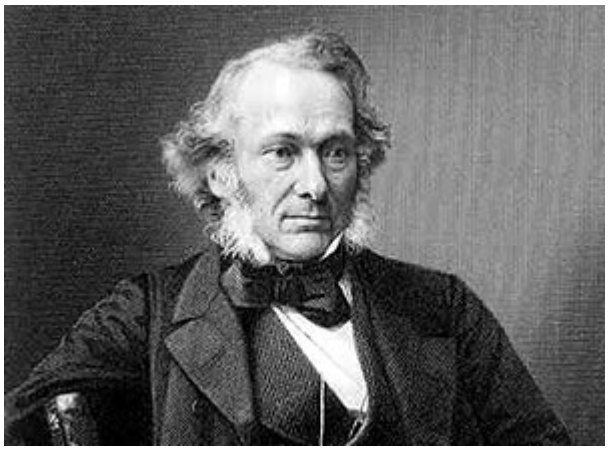
In memory of a man who actually won an argument to free up farm trade

MEPL



TWO hundred years ago, on June 3rd 1804, was born a man who led the first great campaign for free trade. His name was Richard Cobden, and he led the Anti-Corn Law League, perhaps Britain's first big NGO, which in 1839-46 fought to persuade Parliament to remove price controls and import barriers for wheat. By acting as a hefty tax on basic foods, Cobden argued, those controls impoverished ordinary workers, causing recurrent bouts of starvation as well as raising labour costs, dampening demand and discouraging other countries from allowing trade with Britain. It was one such bout of starvation—the Irish famine that began in 1845—that finally tipped the balance and persuaded Britain to repeal the Corn Laws. The prime minister, Sir Robert Peel, generously attributed the success of that repeal to one man: Richard Cobden.

It is all a noble piece of history, no doubt. But it is worth remembering for more reasons merely than that the episode began a period of free-trade success that lasted virtually until the first world war. One of the reasons, admittedly, is a selfish one: Cobden was instrumental in the launch in 1843 of a certain new weekly called *The Economist*, both by buying bulk subscriptions for League members and by leaving James Wilson's paper formally independent of his NGO, which helped it to survive and thrive after the Corn Laws had gone.

Much more important, though, is what Cobden's background and ideas represent in today's world, where trade is far freer than 200 years ago but is still viewed with an extraordinary degree of suspicion, and where agriculture remains a bastion of protectionism. Richard Cobden was no aristocrat, nor an advocate of the rich and powerful. He was the son of a poor farmer in Sussex, and made his own fortune by printing and trading calico textiles. That business became prosperous without free trade in food, and promoting its interests was not his motivation in leading the League. Indeed, his free-trade campaign ended up by bankrupting him. Rather, he had a wider interest at heart: the condition of the poor, and the potential role of trade in promoting a broadly based prosperity.

Time to abolish the food tax

While Cobden saw free trade as morally virtuous, he based his arguments more on the self-inflicted burden represented by protection. Price regulation and import barriers were a tax on bread and so harmful to all those who depended on buying and eating it (or who were thus forced to depend on

inferior crops, such as the Irish with potatoes). Today, thanks to technology and economies of scale, food seems cheap to most people in rich countries. Yet it still carries a harmful tax.

On the OECD's reckoning, farmers in the European Union received support through subsidies and artificially high prices of €107 billion in 2002. That represented a tax on every household in the then 15 members of €686 a year, or $646. In America, total farm support of $40 billion in 2002 represented $366 for each household. Japan is the champion food-taxer among the rich giants, with its ¥5.5 trillion ($44 billion) in 2002 farm support costing nearly $1,000 for every household.

In Japan and the EU, domestic demand is painfully weak yet there is supposedly no scope to cut taxes in order to boost it. In the United States demand is stronger, but the budget deficit there is also far too large. So, as well as helping food-exporting poor countries, there is also a pragmatic, self-interested case for Cobden's solution: abolish the food tax.

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Argentina and its debts

It takes two to tango

Jun 3rd 2004
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A new debt offer is a step forward—but probably not a final one

AP

REMEMBER Argentina? In late 2001, as its fixed exchange rate collapsed and presidents came and went, it declared the largest sovereign debt default in history, on bonds worth $81 billion. Now, 30 months on, some things have changed much, and others hardly at all. Confounding its many critics, Argentina's economy has recovered vigorously, as our survey in this week's issue describes. But the country's well-earned international reputation for financial irresponsibility has changed little—mainly because of its cavalier treatment of its creditors.

So this week's new offer to the bondholders was a chance to show that Argentina is indeed trying to become “a serious country” as Néstor Kirchner, its president for the past year, has sensibly set as his aim. Some details are still opaque. But, sadly, it looks as if the offer may fail the test.

True, it was less stingy than the previous one, of last September. The government now says that it will take into account unpaid interest on the bonds, a sum equal to some $18 billion. According to Roberto Lavagna, the economy minister, the new offer writes off 75% of the net present value of the defaulted bonds. Creditors had argued that the previous offer had involved a writedown of 90%. The new offer implies a small increase in Argentina's primary fiscal surplus.

The latest offer is “final”, said Mr Lavagna; the government will go ahead with the bond swap if it can get just 70% of bondholders to agree. If so, that is bad news not just for the creditors but for Argentina. The Global Committee of Argentina Bondholders, which claims to speak for holders of bonds worth $40 billion, rejected it. As much as the offer itself, their gripe was about its unilateral nature, seemingly designed to pre-empt negotiations supposed to start later this month.

That pre-emption looks plain silly on the government's part. The revised offer may not be all that far short of what is realistic. But a serious negotiation is in Argentina's interest, too. A deal will stick only if the vast majority of bondholders accept it as a reasonable compromise.

Why Argentina needs a deal

In Mr Kirchner's first year in office, he has been fortunate: the economy is growing at an annual rate of 11%. But in the past few weeks, the horizon has suddenly darkened again. After reaching its highest level for 15 years, the price of soya, which in its various forms makes up a quarter of Argentina's exports, has fallen by 18% in the past three weeks. A likely rise in interest rates in the United States has dimmed the prospects for emerging economies generally. And Argentina has begun to suffer energy shortages, which are likely to endure for a couple of years. They are partly the result of the vigour of the recovery, but mainly of bungling by Mr Kirchner.

With bottlenecks appearing and the pace of recovery slowing, sustained growth needs new investment. That, in turn, depends on settling the debt problem. Argentina's banks can do little lending while their portfolios are stuffed with bonds issued by a government in default. Before putting their money to work in Mr Kirchner's Argentina, investors of all stripes need a signal that it is indeed a safe and serious country.

There is another risk for sthe president in all this. In September, Argentina must renegotiate its

agreement with the International Monetary Fund. That will be a first test for the Fund's new boss, Rodrigo Rato (see article). If Argentina has not held “constructive negotiations” with the bondholders, the IMF will have strong grounds to walk away from the accord. Mr Kirchner should not assume that he will get continued support from the Fund's political masters in the rich countries.

Mr Kirchner has shown skill in accumulating political capital. He governs an impoverished country, where social problems still seethe. He has insisted that Argentina can offer no more than 25% to the bondholders. To his credit, when faced with obstacles, he has shown some flexibility, as in recent rises in the tariffs of privatised utilities. But he risks undermining that flexibility by his penchant for unilateral solutions to problems. On the debt, this approach is unlikely to work.

Provided he gets a reasonable deal that sustains growth, most Argentines will forgive their president if he exceeds his 25% ceiling. They will not forgive him if he allows his country's recovery to dissipate. Now is the time for him to spend his political capital—otherwise it will swiftly depreciate.

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Saudi Arabia

A battle that must be won

Jun 3rd 2004
From The Economist print edition

The House of Saud can beat Osama bin Laden—if it reforms itself

EPA

IT HAS been Saudi Arabia's turn to come under the terrorists' lash, with the entire oil-guzzling world frightened by the prospect that the global economy might suddenly be knocked askew by the onset of chaos in the desert kingdom that holds the key to restraining oil prices. Is the House of Saud about to crumble in bloodshed and chaos, with Osama bin Laden and his acolytes poised to take over? No, it is not. But the ruling princes need to move much faster to rebuild their own legitimacy, accountability and thus popular support if they are to prevent that nightmare from becoming a serious, world-wrenching possibility (see article).

By any measure, Saudi Arabia is in an unprecedented crisis. Terrorists bent on overthrowing the established order are plainly entrenched and fanatically determined. No one knows how many of them there are. But it is known that some 15,000-odd Saudis joined the struggle of the Afghans against their then Russian enemies in the 1980s, and many must now be wedded to the *jihadi* cause against what they consider to be America's imperialistic campaign against Islam. On September 11th, 15 of the 19 hijackers were Saudis. In the first three months of this year alone, hundreds of Saudis suspected of connections with al-Qaeda were arrested in their homeland. Now, for the second time in a month, Saudi terrorists have killed foreigners (19 in this latest episode) in an effort to scare such expatriates away. Foreign experts, still needed to help keep the economy moving, are becoming warier. Their steady departure has not yet become an exodus. But if more spectacular atrocities were soon to occur, it might become one.

There will presumably be some more atrocities. But their wider significance will depend more on how ordinary Saudis react. It is hard to gauge Mr bin Laden's popularity. Anecdotal evidence suggests that his message of xenophobic puritanism resonates widely among the country's growing legion of have-nots. It is clearer, however, that a large constituency of frustrated Saudis, especially young and educated ones, loathes Mr bin Laden's bigotry and violence while equally detesting the greed, lack of accountability and incompetence of many of the 7,000-odd princes. Few of such sour youngsters are likely to back al-Qaeda; since the terrorist zealots have started to kill Muslims as well as infidels, Mr bin Laden's folk-hero glamour may have started to wear off. But disenchantment with the royal family means they might not back the princes either, if they came under attack.

Crown Prince Abdullah, aged 81, who runs the show in the name of his half-brother, King Fahd, an invalid since 1995, embarked a year or so ago on a programme of reform. He has opened the economy up a bit. He has allowed reformers—academics, businessmen, religious people—to pen him petitions arguing,

among other things, for more democracy. He has given a little more influence to the consultative *majlis al-shura*, the closest thing Saudi Arabia has to a parliament. He has engaged in a “national dialogue” with handpicked worthies, to discuss the country's future; next week the topic under discussion will be the role of women. There have been murmurs that the national budget could be opened to scrutiny. Most enticingly, the crown prince announced direct elections for local councils by October. It has even been whispered that women might be given the vote. What next?

Get a grip on it, then

But in the past few months the momentum for change has slowed. In March, 13 prominent petitioners were arrested for proposing, among other delights, a constitutional monarchy; three are still in jail. The harsh interior minister, Prince Nayef, another of the king's aged brothers, who oversees the press (which has become more timid again) as well as the religious establishment, seems to have regained the whip hand. That local-election date in October may well slip.

No sensible Saudi proposes a headlong rush towards a western-style, liberal democracy. Most Saudis are cautious and conservative. But more participation and openness now, including holding those municipal elections and having a freer public debate, would build solidarity and support. Truly radical reform may have to wait for the crown prince to arrange for a succession that skips a generation, handing power to younger, western-educated princes who might then accept that the era of royal unaccountability and unearned wealth was over. A constitutional monarchy might then gradually emerge. The *majlis* could evolve as a directly elected parliament, with a self-elected or indirectly-elected assembly of princes (and, in time, princesses) perhaps serving as a senate. Crucially, that resentful Saudi middle class would be allowed to participate in the making of policy.

None of this, of course, would impress Mr bin Laden's disciples, who are bent on the destruction of the House of Saud. Those terrorists must be ruthlessly hunted down. But as things stand there are too many embittered Saudis who are prey to the siren of xenophobic Islamist fundamentalism. Only by reforming the country and its archaic institutions will it be possible to fend it off—and win the battle against terror.

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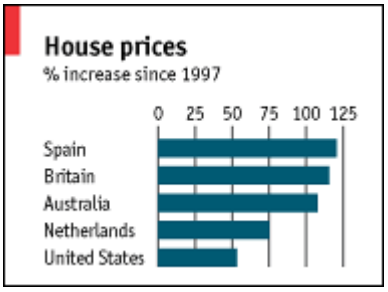
House prices and the world economy

Homing in on the risks

Jun 3rd 2004
From The Economist print edition

Inflated house prices pose an even bigger risk to the world economy than oil



OVER the past 12 months the world economy has grown at an annual rate more than 5%, possibly its fastest pace for two decades. How long can the party last? Most economists have identified three potential threats to this healthy rate of growth: higher oil prices, higher American interest rates and a sharp slowdown in China's economy. All three certainly need watching. Yet there is another risk that is just as great—the overvalued prices of houses in many countries. A slide in house prices, either by itself or combined with any of the other threats, could cause serious economic damage.

Economists generally devote much less attention to global house prices than to share prices. That is a pity, because studies have shown that swings in real house prices can have much bigger effects on economies than swings in share prices. Households in rich countries have, on average, twice as much of their wealth tied up in housing as in equities. Most people also find it much easier to borrow against their home than against shares. Over the past few years this has allowed consumers from America to Australia to turn capital gains on their homes into cash, helping to prop up spending.

In many countries real house prices, after adjusting for inflation, have been rising at their fastest pace ever. Property markets look frothy not just in America, Britain and Australia, but in China, South Africa and Dubai as well. The housing-price bubble has been partly fuelled by easy money: the average short-term interest rate in the G7 economies is at its lowest in recorded history. But not for much longer: America's Federal Reserve is expected to start raising rates this month.

Our calculations suggest that in many countries, including America, Britain, Australia and Spain, average house prices stand at record levels in relation to wages and rents (see article). In other words, they look more overvalued than at previous peaks from which prices fell sharply in real terms. Today inflation is much lower than in earlier downturns, so more of the adjustment may need to come from a fall in nominal prices. If so, there is a risk that for the first time ever, house prices could simultaneously fall in several countries.

Suppose house prices fell by 10% over a period of four years, implying a real decline of 20%. According to calculations by the OECD, that might reduce consumer spending (which accounts for two-thirds of GDP) by more than 2% in Britain and 1% in America. To return to their long-term average, house prices need to fall by more than this. If so, this is likely to do more harm than the recent surge in oil prices.

This is not because oil no longer matters. It does. And after last weekend's attack in Saudi Arabia, oil prices rose to $42 a barrel, 50% above their average level in 2002-03. This is bad, but not nearly as bad as in previous oil shocks, when prices roughly tripled. If oil prices remain at around their current level, past experience suggests that this will knock about 0.4% off GDP in the developed world. That is not insignificant, but it suggests that falling house prices have the potential to make a bigger dent in some countries' growth. A sharp spike in oil prices because of a disruption to Saudi supplies would, admittedly, be very bad news, but worst of all would be if oil prices rise further at the same time as house prices fall.

Whether growth is halted by rising oil prices or falling house prices, policymakers can cushion the blow by cutting interest rates or taxes. The snag is that America already has a huge budget deficit and rock-bottom interest rates. Britain and Australia would have more room to manoeuvre.

Less wonder down under

Most analysts maintain that house prices will not fall. A fall in house prices is unlikely, they argue, unless there is a sharp rise in interest rates or a jump in unemployment; prices are more likely to flatten off. It is true that interest rates are unlikely to return to the double-digit levels that triggered previous housing downturns. However, recent experience in Australia tentatively suggests that house prices can drop without a big rise in interest rates or unemployment. In the first quarter of this year both Sydney and Melbourne saw falls in house prices despite low unemployment and a mere half-point rise in Australia's interest rates last year. The argument that prices would happily flatten off always seemed implausible. For one thing, surging house values have priced out first-time buyers; it will require a sizeable drop in real house prices to lure them back. Second, while it is true that most homeowners stay put rather than sell in a weak market, the growing ranks of buy-to-let investors will be more likely to sell if prices stop rising and their rents do not cover their costs.

Housing optimists dismiss these fears by pointing out that doomsters such as *The Economis*t began wringing their hands about a property bubble a year ago, and yet prices have continued to climb. But this has made the housing market not safer, but more vulnerable. The first law of bubbles is that they inflate for a lot longer than anybody expects. The second law is that they eventually burst.

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London mayoral election

A capital choice

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From The Economist print edition

Why Londoners should vote for Ken Livingstone, despite his many flaws

Get article background

FOR a diverting stroll down memory lane, take a look at "The London Industrial Strategy" of the Greater London Council (GLC), published in 1985, the year before the little-lamented local government body was abolished by Margaret Thatcher. It painted an apocalyptic vision. London was "at the eye of the storm" of deindustrialisation, which was causing "the economic collapse of Britain's major cities". It is as hard to reconcile that with today's prosperous, buzzing capital city as it is to remember that "Red" Ken Livingstone, the then leader of the GLC (economic objective: "restructuring industry in the interests of labour"), is the current pragmatic, business-friendly mayor of London.

Like most people, Mr Livingstone has changed a bit as the years have worn on. The former figurehead of Labour's "loony left" has shaved off his moustache, taken to television chat shows and decided that keeping businessmen happy so that they create more and better-paid jobs is a better way of improving the workers' lot than the class struggle.

And while Mr Livingstone has moved towards the world, in some ways the world has moved towards Mr Livingstone. The GLC's political correctness—"equal opportunities" and access for disabled people—was ridiculed 20 years ago. These days all employers preach anti-discrimination policies and wheelchair ramps, and braille lift buttons are everywhere.

Now, after four years as mayor, Mr Livingstone is standing for re-election on June 10th. And the world and he are so much reconciled that *The Economist* is endorsing his bid.

Maybe it's because we're Londoners

London's mayor is not an American-style city boss. He is sandwiched between Britain's over-powerful central government and the capitals' 33 local councils. What Mr Livingstone can do is raise some money (£241 per average London household at present) and exercise a lot of power over the capital's transport system. He also has some say over planning and the police. On balance we reckon (see article) he's used his powers wisely.

The biggest plus is that he started a revolution in road pricing. Last year London became the first of the world's big cities to charge cars entering the city centre at peak times. It was a brave thing to do—politicians and new taxes bring to mind turkeys and Christmas—and it worked. Central London's traffic flows faster. Buses are also better and more numerous, though at some cost: they broke even before Mr Livingstone took over, and now soak up £600m ($1.1 billion) a year in subsidy.

Against that is the tube, London's unloved, underperforming underground railway, which costs over £1 billion a year in subsidy. It's not all Mr Livingstone's fault: he inherited government-designed plans for a half-public, half-private system, of great and probably unworkable complexity; on top of that, there is a decades-long backlog of maintenance. That inevitably means disruption and angry passengers. But Mr Livingstone's posturing, self-centred approach to the tube certainly made things worse. Wise politicians

don't start fights that they can't hope to win. His ideological opposition to the tube's part-privatisation wasted time and money.

On planning, Mr Livingstone has delighted London's businessmen. He has used his powers to allow through schemes for a rash of new skyscrapers which outrage conservationists, but promise jobs, cash and the visual thrill that comes (at least from far away) when sharp new buildings slice the skyline.

Finally, he has increased the number of policemen in London. Crime is down since he took over, though it is anybody's guess whether the policemen had anything to do with that. Still, Mr Livingstone gave the voters what they wanted.

He has flaws aplenty. His public charm is not matched by his private behaviour. And his all-too-frequent statements on world affairs reflect the silliest kind of British left-wing anti-Americanism: he recently called George Bush “corrupt” and “not the legitimate president”. That recalls his loopy designation of London as a “nuclear-free zone” in his GLC days. Fortunately, though, foreign policy is not part of the mayor's job.

Other critics argue that he has been a mayor for central London—that the people in the suburbs who mostly pay his bills benefit little from what he has done. There's something in that, but not a great deal, for central London is where many of the biggest problems lie, and many who live in the suburbs work and play in central London so mind what happens there.

What of the rivals? Steve Norris, a plausible Tory, misguidedly opposes the congestion charge, a market-based policy he ought to support. Simon Hughes, the Liberal Democrat, is in many respects the most attractive candidate. But he is running third in the race and in any case lacks Mr Livingstone's useful mix of nerve, verve and low cunning. *The Economist* is surprised to find itself saying this, but Ken's the man for the job.

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Letters

Jun 3rd 2004
From The Economist print edition

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A win for democracy

SIR – In the aftermath of the Congress party's stunning victory, India's new government should not forget that the BJP's "India Shining" electoral campaign was on to something ("Sonia: and yet so far", May 22nd). While the world has focused on the rising success of the Indian entrepreneur, this is a symptom, rather than the definition, of what is truly shining in India.

Democracy is India's greatest strength and attraction, and it was much in evidence during the recent electoral process. Democracy and the freedom it engenders has resulted in the property rights that have unleashed entrepreneurship far beyond the well-publicised Indian software industry to include sectors like biotechnology, advertising and film. This can serve the very poor that swept the new government to power. The coalition should thus take care to enhance its commitment to markets, not curb it.

Tarun Khanna
Boston

SIR – You say that Manmohan Singh is a member of the upper house of parliament but needs to win a seat in the lower house within six months to remain as prime minister. This is incorrect. The constitution requires the prime minister, or any other minister, to be a member of parliament within six months of appointment. It does not specify whether he has to be a member of the directly elected lower house or the indirectly elected upper house. Traditionally, prime ministers come from the lower house as it adds legitimacy to the government, but this is more convention than requirement.

Badri Ratnam
Glendale, Arizona

Bow jest

SIR – Your handicapping of the race for the next European Commission president denigrates Wolfgang Schüssel because he "wears bow-ties" ("The great selling plate", May 22nd). Winston Churchill wore bow ties. The 100 distinguished members of the Seattle Bow-Tie Club object to such character assassination.

Vincent Jolivet
Seattle

SIR – Have you forgotten how to count? There have been two French presidents of the commission not one: François-Xavier Ortoli (1973-77) and Jacques Delors (1985-95).

Dick Leonard
Brussels

The right to choose

SIR – Comparing abortion rights in America to gay marriage rights is far-fetched ("Another Thirty Years War in the making?", May 22nd). Although I believe that a woman should have the right to an abortion, it involves the killing of another human being, which makes it a difficult ethical choice. Granting people the right to marry the partners they love, although they may be foreigners, of a different creed, another

race, or yes, the same sex, enables people. One may argue that unborn children need our protection but who are we protecting when we forbid people to pledge love, loyalty and support to another person? If history is a guide, gay marriage will eventually be legal, and I hope it doesn't take another 30 years.

Roland Ennis
Kent, Ohio

Organised violence

SIR – In your article on Bolivia you say that "days of stone-throwing protests ended with the killing of at least 59 of the mainly Andean Indian demonstrators by troops" ("Hot air", May 8th). This is wrong. The people you characterise as "stone-throwing" were, in fact, well-organised and well-financed thugs using explosives and firearms to attack predetermined civilian and military targets. More than half the casualties were police officers, army personnel and civilians.

The events are little known and remain undocumented because a professional investigation is yet to take place, despite attempts to involve international bodies in a fully-fledged criminal investigation. Carlos Mesa's regime is less likely to fall than his predecessor's ever was and no doubt he will continue to impede an investigation, allowing the perpetrators of these crimes to remain in Bolivia carrying out politics as usual.

Ignacio Sanchez de Lozada
Medford, Massachusetts

Planning for retirement

SIR – You correctly note that with virtually every economic indicator going in a positive direction, now is the time for the Bush administration to move forward aggressively with a new bold vision for the next four years consistent with the president's vision to create an "ownership society" ("Lexington", May 15th). However, you are sadly mistaken in characterising a move to large personal-retirement accounts as a pending "fiscal catastrophe". Social Security confronts an unfunded liability of $10.5 trillion that starts to come due in Social Security payments when the system begins running deficits in 2018. Not reforming the system now would lead to financial disaster or politically untenable "solutions" such as cutting benefits by 30% or increasing the payroll tax burden by 50%.

According to calculations by the Social Security administration's chief actuary, however, it is possible to transform Social Security fundamentally without resorting to tax increases or benefit cuts if we exercise reasonable restraint on federal spending growth and prudent borrowing to finance the transition to a new system of large personal-retirement accounts. Allowing workers to place half the payroll tax into such accounts to pre-fund their retirement would bring to fruition Abraham Lincoln's vision of the true American dream by making every worker an owner.

Jack Kemp
Washington, DC

Czech in the post

SIR – You describe worries among Czechs about not having an informal moniker for their country ("What's in its name?", May 22nd). They worry needlessly. Many countries have fared well with a two-word name, eg, United Kingdom, South Africa, New Zealand and United States. Two-word appellations have not deterred Puerto Rico and the Dominican Republic from becoming tourist destinations. If branding is the goal, launch a campaign equating "CR" with the Czech Republic. It works for the UK, US and a host of multinationals—AT&T, BT, GM, UBS, KPMG, etc.

Philip Rutledge
Harrisburg, Pennsylvania

SIR – May I suggest Chekhia as the English equivalent of the informal name, Cesko? And why not adjust the spelling to the Chekh Republic. The combination "Cz" is used neither in English nor Czech to represent the sound that in the latter language is written as a "C" topped with a diacritical symbol called a *hácek*.

Ladd Seton
New Canaan, Connecticut

SIR – You incorrectly render the German word for Chechnya. You are short of a “ts”. I have never encountered anybody confusing Tschechei and Tschetschenien before but if you want to avoid mixing up the names it may help to know a little more about those countries than just the name. This might have helped George Bush when he confused Slovenia and Slovakia.

Matthias Kretschmer
Frankfurt, Germany

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The transatlantic alliance

A creaking partnership

Jun 3rd 2004 | BRUSSELS AND WASHINGTON, DC
From The Economist print edition

Though the Americans and Europeans are getting together four times this month, they still find it hard to get on

THE commemoration of the 60th anniversary of the D-Day landings will have an elegiac tone, and not just because of the memory of the soldiers who died that day. There is a growing sense in both the United States and Europe that the western alliance that was born out of the second world war, and triumphed in the cold war, is failing to recover from the cruel strains of the past three years.

June was supposed to be hatchet-burying time on both sides of the Atlantic. During the month, the paths of the western leaders will cross no fewer than four times. First, on June 6th, George Bush visits France for the commemoration ceremonies. The G8 summit of the world's richest countries takes place in America from the 8th to the 10th. An American-European Union meeting in Ireland will follow on June 25th-26th, and a NATO summit in Istanbul two days later.

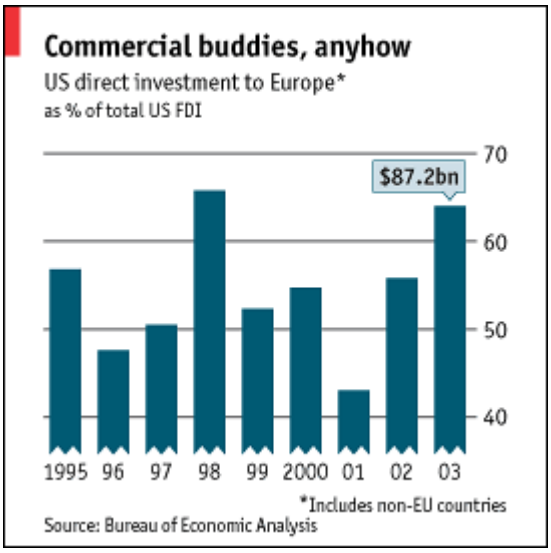
Each episode in this elaborate dance has been designed to advance transatlantic comity a step. In Normandy, Mr Bush will reach out to the Europeans who opposed his invasion of Iraq, and suggest to them that bygones be bygones. At the G8 meeting, the Europeans are supposed to respond by signing up to Mr Bush's proposed initiative to encourage democracy and reform in the Middle East, a measure that Condoleezza Rice, America's national security adviser, has called the president's main diplomatic effort this year.

At the Irish meeting, or so the Americans hoped, the Europeans would agree to some sort of common agenda for stabilising Iraq. To top it off, the NATO summit is to discuss expanding military ties with certain Middle Eastern countries and—or so the Americans also hoped—consider some sort of collective role in Iraq, perhaps taking over certain of the coalition's military operations there. The most optimistic Americans even hoped that more European troops might soon be sent to Iraq.

That was America's hope and at one time it even looked plausible. Both sides seemed ready for rapprochement. The Bush administration's travails in Iraq have cast doubts on the neo-conservative notion that American security is best served when the United States frees itself of entangling alliances and goes it alone. European leaders are no less alarmed at the dangers of a profound and persistent rift. The handover of “sovereignty” in Iraq seemed a good omen, with UN Security Council members preparing to vote on a resolution to bless the new Iraqi government that takes over on July 1st.

Yet, in practice, the chances of wider co-operation in Iraq depend on security improving enough to make European involvement possible. That is not happening. Instead, America's setbacks in Iraq have emboldened those Europeans who opposed the war, and damaged the political leaders who stuck by Mr Bush.

The ambitious hopes for June had dimmed even before the first prepared statement was delivered. For a start, America and Britain are not getting a free pass on the new UN resolution. France is disputing the details and no one expects the measure, when it is accepted, to pave the way for troops from those European countries that have so far held back.



No kiss and make up

Michel Barnier, France's foreign minister, has said that France will not send troops to Iraq now or in the future. Indeed, America is struggling to persuade those Europeans that already have troops on the ground—such as Italy, Poland, the Netherlands, Denmark and Romania—to stay the course, rather than follow the Spanish example and pull out. The Czech defence minister said this week that Czech military policemen are likely to be withdrawn at the beginning of next year. The British, as ever, are the exception, with Tony Blair openly preparing to commit more soldiers.

In both Italy and Poland, opposition parties are making great play of their anti-war credentials. One EU official comments that, in former times, European leaders would have been fighting to get close to the American president at such events as the D-Day commemoration, but “not many of them will want to do that now.” Mr Bush may still hope that June 6th will provide him with useful photos for his re-election campaign to challenge John Kerry's claim that he has unnecessarily endangered American security by offending important allies. But there is a risk that any gains will be outweighed by what promise to be noisy anti-Bush demonstrations when the president visits Rome on June 4th on his way to Normandy.

In April, Colin Powell, America's secretary of state, asked NATO to consider “a new collective role” in Iraq: perhaps leading the coalition's operations in south-central Iraq. The idea was rejected by Gerhard Schröder, Germany's chancellor, who has said that he would oppose any use of NATO troops in Iraq (although 16 of the organisation's 26 members have soldiers there, they contribute them as individuals, not as part of NATO). The Bush administration has admitted that the 135,000 American troops will have to stay there for the foreseeable future.

Modesty in all things

NATO will not come to its summit entirely empty-handed, but will offer limited military partnerships to some Middle Eastern countries as part of the so-called Istanbul co-operative initiative. This will be a first sign that the organisation is preparing to play a part in a region that the Bush administration describes as the main source of strategic danger to the western alliance.

Europeans, while increasingly shy of Iraq, say that they will give more money to NATO's operation in

Afghanistan, where the international peacekeeping force is under NATO command. Europeans are also hoping to get the go-ahead to take over peacekeeping in Bosnia from NATO and to turn it into the EU's biggest ever peacekeeping operation. Still, compared with Mr Powell's original request, NATO's (and Europe's) involvement in Middle Eastern security remains modest indeed.

The final version of America's “Greater Middle East Initiative” may be no less modest. This, originally, was an attempt to institutionalise Mr Bush's call, made at a conservative think-tank in Washington last year, for democratic transformation in the Middle East. When *al-Hayat*, an Arabic newspaper published in London, leaked the first working paper in February, Egypt's president, Hosni Mubarak, denounced the plan as “delusional”. The EU's foreign affairs commissioner, Chris Patten, concurred politely: “We would not want to give the impression we are parachuting our ideas into the region.”

Last week, a revised version, due to be adopted at the G8 summit, showed marked changes. Out go the main proposals for encouraging political change, such as an Arab version of the National Endowment for Democracy, which makes grants to pro-democracy groups. A Middle East Forum, modelled on the Helsinki accords that held up basic standards of human rights to Soviet-controlled states during the cold war stays in, but whereas the communists committed themselves to the accords by signing them, the new agreement is to be signed by America and Europe alone. Participation by the Arab states will be voluntary.

The new draft makes explicit that “change cannot be imposed from outside”. References to “democracy” and “reform” have been replaced by regime-friendlier terms such as “modernisation” and “development”. Symbolically, the name of the initiative has been changed from “Greater Middle East” to “Broader Middle East and North Africa”. Afghanistan and Pakistan have been excluded, and the initiative has ended up more like a traditional development project in the Arab world than an attempt to use democratisation as an instrument in the war on terror. The two bits of the plan that remain mostly unchanged are a literacy programme and a $500m micro-finance scheme to channel loans to small businesses and individuals.

All that said, the initiative still matters. It is a first step in turning Mr Bush's wordy rhetoric about democracy and the Middle East into some form of reality. And it demonstrates increasing belief in the “soft power” that the administration scorned only a year ago.

At some point in the merry round of summits, there is also likely to be an American-European declaration on non-proliferation and on combating terrorism. The point will be to underline the two sides' shared analyses of the major security threats facing the world. Yet for all the hints that America may be tending towards giving “soft power” its due, there are still important divergences on how best to deal with these common threats.

The Europeans believe that an effort to solve the Israeli-Palestinian conflict must be at the front of any effort to win the “war on terror”. They remain despairing about what they regard as the Bush administration's willingness to indulge Ariel Sharon, Israel's prime minister. Mr Bush's endorsement of Mr Sharon's recent plan to pull out of Gaza while cementing control over much of the West Bank irritated European leaders. It showed, the Europeans believe, an abrupt reversal of American policy, taken without consulting European allies.

There are other marked differences over less high-profile bits of the Middle Eastern agenda. While America recently imposed trade sanctions on Syria, the EU is moving in the opposite direction, putting the finishing touches to a trade and co-operation agreement. The same contrast between an American policy based on confrontation and a European policy based on “constructive engagement” has long been observable in relations with Iran.

How others see us

The alliance's open disagreements over Iraq and the Middle East have been pretty well aired. What may be more alarming is the underlying deterioration in relations that is reflected in popular attitudes on either side of the Atlantic. A survey by the Pew Research Centre released in March showed a sharp reversal in European attitudes to the United States over the past two years. Whereas 63% of French people had a positive attitude to America in the summer of 2002, this had shrunk to 37% by March 2004. In Germany, a 61% positive rating had fallen to 38%. And all this was before the news broke of the Abu Ghraib prison scandal.

The poor opinion appears mutual, at least so far as France is concerned. In the same poll, the 79% of

Americans who reported a favourable view of France in 2002 had shrunk to 33% by March 2004. Ratings for Germany have held up relatively well: 83% of Americans had a good view of Germany in 2002, and 50% still reported positively this year—a lovefest compared with German attitudes to America. More Americans regard the European Union favourably than negatively: 39% are reported positive, 26% negative, with (unsurprisingly) large numbers of don't-knows.

Europeans entertain a series of entrenched and tiresome stereotypes: they tend to believe that the American government is run by religious, gun-toting zealots; that big business and the “Israel lobby” controls the agenda of the American government; that Mr Bush's policies are dictated by the oil industry. The popularity of such views has turned Michael Moore, a polemical American film-maker, into a hero in much of Europe. Mr Moore's film “Fahrenheit 9/11” recently carried off the top prize at the Cannes film festival and the film-maker himself received a 19-minute standing ovation. His book “Stupid White Men” sold 1.1m copies in Germany alone. Conspiracy theories about America get a ready audience in much of Europe. The Pew survey showed that 60% of Germans and 58% of French believed that the war on terrorism was being fought “to control Middle East oil”, higher figures than for Pakistan, where 54% supported the idea.

Even high-level European officials can, when off-duty, get pretty steamed up about America. One senior man at the EU, who regularly deals with top officials in Washington, recently remarked at a Brussels party that the “fucking ideologues” in the Bush administration had got their come-uppance. He placed them in the same ideological world as Jean-Marie Le Pen, the far-right leader in France. Staring deeply into his wine glass, the official complained that his interlocutors in Washington displayed an attitude of “total contempt” for visitors from the EU.

But economically, things are benign

Fortunately, whatever their private feelings about each other, both sides know that they have to do business together. And, as a new study by Dan Hamilton and Joseph Quinlan of the Centre for Transatlantic Relations at Johns Hopkins University illustrates, transatlantic economic ties are flourishing as never before. The authors note that “Corporate America pumped $87 billion in foreign direct investment (FDI) into Europe in 2003. That represented a jump of 30.5% from 2002.” Meanwhile Europeans accounted for 65% of FDI into America last year.

Despite all the attention that the rise of China and India attracts in the United States, the truth is that these emerging markets are still dwarfed in importance by the mutual economic ties between Europe and the United States. Over the past decade American firms have invested ten times as much in the Netherlands as in China. Last year, American investment in Ireland alone (population 4m) was $4.7 billion, more than two-and-a-half times greater than American investment in China (population 1.3 billion). The amount of money flowing in the opposite direction is also huge. European firms employed roughly two-thirds of the 6.4m American employees of foreign firms in 2001. Ironically, given widespread European antipathy to the Texan conservatism of George Bush, Texas is the American state which receives most European investment.

These numbers present a much more optimistic picture of ties between America and Europe than the politicised vitriol that flows over Iraq and other issues. They also suggest that the politicians' speeches about common western values—which in the current climate it is tempting to dismiss—have some basis in reality. The reason why Americans and Europeans are more comfortable doing business with each other than with anywhere else in the world, is that they do have a great deal in common. Their societies are relatively rich. Their consumers buy similar products and have similar aspirations. Their businessmen are comfortable with each other's legal and political environments.

It would be too much to conclude that the depth of these economic ties make a further deterioration in transatlantic relations impossible. Some serious analysts even speculate that the transatlantic relationship could yet evolve from partnership to strategic rivalry. Certainly there are influential voices within the European Union who see the organisation's future as driven by an effort to develop a “counter-balance” to American power. Opinion polls in Europe show strong support for such a development.

The closeness of business and economic ties may place some limits on the extent to which European countries push opposition to the United States. But the real limiting factor is that there is so far little evidence that European countries are prepared to do what is necessary to evolve into a genuine alternative power block. Proposals to promote a common European foreign policy through a new European constitution are timid and show little real desire to impose a single line on the EU at the

expense of national sovereignty. And while the European public may express a desire for the EU to become a serious global player, there is nugatory support for the increased defence spending that would be necessary to make this happen. Fully-fledged transatlantic strategic rivalry is still a long way off.

And after the election?

In the meantime the transatlantic partnership is in trouble. The quadruple summits, with their modest potential, are unlikely to improve things much. They are much more likely to usher in five months of wait and see—until after America's presidential election in November.

It can be argued that any result would be an improvement on the present. If Mr Kerry wins, Europeans will be delighted. The Democratic candidate has said that he will put ties with traditional allies—meaning Europe above all—front and centre of his foreign policy (Mr Bush said much the same when he came to office). Just as important, Mr Kerry will not bear the baggage of the past four years.

But even if Mr Bush wins, things might improve somewhat. The problems in Iraq have lessened the influence of the neo-conservatives in his administration. Since they are also the main Euro-sceptics, their reduced influence would open up a chance for better relations. For different reasons, Donald Rumsfeld, another obstacle to closer ties, may not serve a second term as secretary of defence. It was far from certain that he would stay anyway, even before the horrors at Abu Ghraib.

All this might make a second Bush administration less hostile terrain for Europeans, though it is also likely that Colin Powell and Richard Armitage will retire too, so Europeans will be losing friends as well as critics in the administration. If nothing else, Europeans will know more or less what to expect a second time around.

They would much prefer Mr Kerry. But could there be a post-honeymoon breakdown if the Democrat wins? The hard differences between America and Europe over the uses of force, the importance of international treaties and so on will not vanish overnight. In addition, Mr Kerry has made going to the Europeans for money and troops his main solution to the problem of instability in Iraq. But what happens if he goes to the Europeans and is rejected? The danger of disappointed expectations remains real.

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Battling proliferation

Win some, lose some

Jun 3rd 2004
From The Economist print edition

Is the messenger mangling the message?

“WE WILL not permit the world's most dangerous regimes and terrorists to threaten us with the world's most destructive weapons.” Thus George Bush after the September 11th attacks, promising to face down the threat from the spread of weapons of mass destruction. In the coming flurry of American-European meetings, Mr Bush will be pressing hard for curbs on proliferation to be treated as an epoch-shaping issue, alongside stability in Iraq and the spread of democracy in the Middle East.

The message is filtering through in surprising places. It helped convince Libya last December to speed its exit out of the illicit mass-destruction business. The alarming tales that have since emerged of the wholesale auctioning off of Pakistan's nuclear technologies, not just to Libya, but to North Korea, Iran and possibly others, led the UN Security Council to pass a resolution obliging all governments to criminalise illicit weapons and technology transfers. This was done at Mr Bush's urging. Yet despite these diplomatic successes, and the money being spent on securing “loose nukes” (see article), the Bush strategy still has plenty of critics.

Take the determination to invade Iraq. Contrary to intelligence reports, Iraq turned out not to have stocks of banned weapons, though it did have several covert missile programmes. But while America was focused there, North Korea went on building more bombs and Iran thumbed its nose at inspectors from the International Atomic Energy Agency (IAEA). Far from providing an object lesson, argue the critics, toppling Iraq's regime encouraged others to redouble their bomb-building.

To charges of misplaced belligerency, add those of inconsistency and double standards. Even granted that Iraq, Iran and North Korea were tapping similar supply networks for missiles, why lump all three into an “axis of evil”, as Mr Bush did, while calling arch-proliferator Pakistan (needed against al-Qaeda) a valued “non-NATO ally”? And why court India, which, like Pakistan and Israel, never signed the Nuclear Non-Proliferation Treaty (NPT)?

Such charges are neither partisan (some Republicans, too, are worried) nor misplaced. Hardline heel-dragging at the State Department has complicated policy towards North Korea, the first country ever to leave the NPT. Yet the hardliners are unabashed. A 1994 agreement to freeze the North's plutonium-making in return for energy assistance fell apart in 2002, not because of Mr Bush's hostility but because the regime had been caught cheating with a second, uranium-enrichment route to a bomb. This was under way long before the president was even in office. Similarly, Iran now admits that it has been secretly dabbling in uranium for 18 years.

Former Clinton adminstration people, with hands-on experience of the issues, still argue that America should be negotiating harder with both regimes. But, given the revelations, they do not necessarily expect a happy outcome. They just want America to be able to show that all other options have been exhausted, should sanctions or even sterner measures be called for.

But hasn't Iraq at least made Mr Bush reluctant to grapple more toughly with either North Korea or Iran while American forces are so heavily committed in the Middle East? Very probably. Yet, in either case, the president had no good military options. And opting for multilateral diplomacy—working with South Korea, Japan, China and Russia over North Korea, and with the Europeans and others on the board of the IAEA over Iran—should not be taken for wimpishness, insists one senior Bush official. If diplomatic pressure fails to work, other sorts will be tried.

No place for the meek

Stricter enforcement of the anti-proliferation rules has been a hallmark of this administration. Not that previous ones, Democratic or Republican, ignored the problem. But al-Qaeda's audacious attacks, combined with Osama bin Laden's call to acquire nuclear weapons as a “religious duty”, cast the problem of treaty-breaking by rogue governments with terrorist links in an alarming new light.

Keeping the spotlight on the miscreants has meant the unapologetically undiplomatic naming and shaming of treaty breakers and benders; enforcing UN resolutions in Iraq; leaning hard on North Korea to disarm, this time “completely, verifiably and irreversibly”; and pressing for Iran's repeated safeguards violations to be reported to the UN Security Council. The relentless pressure has yet to persuade either North Korea or Iran to trade in their weapons options. But even Democratic critics acknowledge that the strategy has had some success.

Whatever others may have felt about Mr Bush's Iraq policy, there is also broad recognition that the Security Council fell down on the job in the 1990s. A UN panel is looking at how it might do better in future. For all its divisions over Iraq, the European Union now includes an anti-proliferation clause in all trade agreements (a sticking point with both Iran and Syria). Dozens of governments—including Russia's, the latest convert—are co-operating in the president's proliferation security initiative, now backed by the UN's new anti-trafficking resolution, using national laws more effectively to disrupt illicit trading among the world's proliferators.

Although Mr Bush is supposedly hostile to international treaties—his early scrapping of the anti-ballistic-missile treaty with Russia and his opposition to ratification of the comprehensive test-ban treaty still rankle with other anti-proliferation warriors—he has also won credit recently for his efforts to shore up the NPT. Last year he helped get the IAEA, which upholds treaty safeguards, its first real budget increases in 16 years. And like the agency's director, Mohamed ElBaradei, Mr Bush wants to see greater restrictions on dangerous uranium-enrichment and plutonium-reprocessing technologies. These have legitimate civilian uses in nuclear-power programmes but, as Iran has shown, they can also bring a determined proliferator dangerously close to a bomb.

Tempting fall-out

All this goes to the heart of the bargain struck more than 30 years ago under the NPT: that those who gave up nuclear weapons should still enjoy all the benefits of nuclear energy. Rejigging that will take deft diplomacy. If Mr Bush wins in November, will he find the right touch?

His plans for America's own nuclear stockpile could prove the biggest difficulty. The Bush team says it wants to reduce reliance on nuclear weapons in a crisis; instead, it seeks a better mix of nuclear and conventional strike forces, missile defences and a weapons infrastructure that can more readily counter any unwelcome event. Yet even Congress, which first approved this strategy, has been growing queasy at plans to keep America's test-site a bit readier for use, to explore possible bunker-buster bombs for use against hardened underground targets and to research (though not develop or test) new sorts of nuclear weapons.

Administration officials argue that their plans have been misunderstood. Apart from keeping America's swiftly shrinking arsenal of bigger bombs safe and reliable, much of this work is intended simply to retain and pass on nuclear skills, for there will soon be no one left among America's weaponeers with practical

test experience. There are no plans, officials insist, to resume testing, and no military requirements for new nuclear weapons. But that, they admit, could change.

In any event, Mr Bush's problem is not just one of poor salesmanship, argues the Carnegie Endowment for International Peace, a think-tank, in a forthcoming report entitled “Universal Compliance: A Strategy for Nuclear Security”. The authors argue that a non-proliferation regime based on haves and have-nots will always be unstable. All nuclear powers should explore more seriously what it would take to turn their disarmament promise (also enshrined in the NPT as a long-term goal) into more than a slogan. At a minimum for now, the authors want America to reaffirm the test ban and abandon all pursuit of new weapons.

Many a non-disarmer would agree. If America, with the most powerful nuclear forces in the world, still claims it needs to tinker with new sorts of weapons for its security, how is Mr Bush to persuade others to give up their nuclear ambitions?

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George Tenet and the CIA

Nice timing

Jun 3rd 2004 | WASHINGTON, DC
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Citing personal reasons, the director of the CIA has quit

ON THE evening before George Bush's trip to Europe, George Tenet went to the Oval Office and, in the presence of Dick Cheney and Colin Powell, resigned as head of the Central Intelligence Agency. Not before time, many would say. Mr Bush said that Mr Tenet had quit for personal reasons. That may well be. But the political context of his decision also provides an explanation for its timing—and raises awkward questions about the future of the CIA.

AP

Little to boast about

Mr Tenet's resignation forestalls what would almost certainly have been loud cries for his dismissal. Over the next few months the special commission on the 9-11 attacks is due to make its report; so will half-a-dozen congressional committees looking into different aspects of the agency's work. All are likely to be critical of Mr Tenet's tenure. Chuck Schumer, a Democratic senator from New York, has called Mr Tenet "the fall guy" for the administration's intelligence failings. That may be too kind. History is likely to judge his record harshly.

Under him, the CIA failed to give warning of the crisis over India, Pakistan and nuclear weapons in 1998. It also failed to "connect the dots" over 9-11, though Mr Tenet appears to have been one of those most alarmed about the threat from al-Qaeda. And Mr Tenet told an initially sceptical president that Saddam Hussein's possession of weapons of mass destruction was "a slam-dunk case"—a woeful misjudgment, which apparently cost him the support of Mr Powell in inter-agency battles.

Mr Tenet leaves the CIA at a time when the nation is vulnerable. Last month John Ashcroft, the attorney-general, said he had credible information that al-Qaeda was preparing new attacks on the United States before the election. According to administration officials, America's former favourite in Iraq, Ahmed Chalabi, has just blown apart the CIA's intelligence operation in Iran (though Mr Chalabi denies this).

Mr Tenet's deputy, John McLaughlin, will take over as acting director when Mr Tenet leaves in July. He will no doubt be able to deal effectively enough with specific intelligence challenges. But there are growing demands, some from the 9-11 commission itself, for a fundamental shake-up of America's intelligence services—reforms that Mr Tenet will no longer be in a position to oppose.

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Nuclear nightmares

The big clean-out

Jun 3rd 2004
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Progress, but is it enough?

AS WEAPONS ambitions have spread from states to terrorist groups, it gets increasingly likely that nuclear materials may some day be used in some sort of bomb. In an effort to prevent this, George Bush will again be pressing his allies at next week's G8 summit to find more money for a ten-year, $20 billion project agreed two years ago to prevent nuclear, chemical and biological weapons, materials and know-how from the former Soviet Union from falling into the hands of al-Qaeda or its hangers-on. America has chipped in its $10 billion half-share, the Europeans and Japan are still $3 billion short of theirs. Given the awful cost of failure, why the delay?

Partly because Russia is being coy about letting foreigners in to secure its most sensitive sites where a lot of this material is stored. Although by the end of this year 75% of sites, it is hoped, will have had at least a quick security once-over, a Harvard study entitled “Securing the Bomb”, sponsored by the Nuclear Threat Initiative, points out that less than a quarter so far have had comprehensive upgrades. A plan to dispose of some 68 tonnes of plutonium from dismantled weapons, agreed in 1998, is stalled because of a dispute over who would have to pay up if some mishap occurred at the plant that is yet to be built in Russia.

Mr Bush will need to push Russia's Vladimir Putin hard at the summit to get both programmes moving faster. John Kerry, the Democratic hopeful, said this week that he would appoint a national co-ordinator to speed things up. But Russia's own priorities are dismantling elderly submarines with creaky nuclear reactors on board and disposing of the 40,000 tonnes of chemical weapons it stockpiled during the cold war. Work is going slowly on both.

Half a dozen other countries outside the G8 have already agreed to join the effort, and another clutch may sign up next week. That is not enough to declare victory, but there is progress in other areas, too. In May the Energy Department announced a $450m joint project with Russia to repatriate highly enriched uranium in fresh and spent fuel, of American and Russian origin, that languishes at 130 research reactors in 40 countries. All unused Russian-origin fresh fuel is due to be recovered by the end of next year, though it will take till 2010 to gather in the spent fuel. And governments are being encouraged to convert research reactors to low-enriched fuel.

Plenty more work remains, including installing radiation detectors to prevent theft from sites where nuclear material is still stored in Russia, and at borders and ports worldwide. Nuclear theft and trafficking, though in small quantities so far, are already common enough for the nightmare of a nuclear detonation to keep everyone awake on the job.

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California's three-strikes law

Softening the blow

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From The Economist print edition

Do pizza-stealers deserve 25 years?

IN 1996 Johnny Quirino, a divorced father of two with a history of drug abuse, pleaded guilty in a Bakersfield, California courtroom to stealing some razor blades—and was handed a prison term of 25 years-to-life. Mr Quirino was a victim of the 1994 “Three Strikes and You're Out” law, mandating sentences of 25 years or more. That meant that the judge took account of the two felonies already on Mr Quirino's record sheet: burglaries in 1982 and 1989.

Some 42,000 three-strikers now languish with Mr Quirino behind bars. Quite right, too, say the law's more outspoken supporters. Bill Jones, the Republican nominee for Barbara Boxer's Senate seat and a former California secretary of state, says that in the past ten years California has seen its crime cut nearly in half and has not had to fund a single new prison. Therefore a new proposal by the law's critics—the Three-Strikes Limitation Initiative—“represents the greatest threat to public safety in the history of California.”

That might be true if every three-striker were a confirmed rapist, murderer or child-molester. But the idea of the initiative is not to repeal the three-strikes law, which is popular, but to restrict it to its original intent: the near-permanent incarceration of violent and dangerous criminals. Clearly a great many of the 42,000 (a quarter of California's prison population, and more than the prison populations of 42 other states) do not fall into that category. Indeed, Citizens Against Violent Crime, the initiative's main proposer, reckons that, if it passes, 25,000 or more prisoners could appeal for re-sentencing because their third offence would no longer count as a “strike”.

How well such a prospect will sit with the voters is an open question. It faces the lobbying power of the law-enforcement industry, most of which opposes any change to the law. It may also prove tricky that the main bankroller of the signature-drive is a man whose son is in prison for two counts of manslaughter in a car accident. The son would potentially benefit from a change in the law if, once out of prison, he committed a third offence.

On the other hand, backers of the initiative claim people want a more targeted law, especially with tougher penalties for child-molesters. Meanwhile, as Joe Klaas, chairman of Citizens Against Violent Crime, puts it, “We're spending a million dollars each to...[provide] permanent geriatric care for shoplifters and pizza thieves.” It was the 1993 kidnap and murder of Mr Klaas's 12-year-old granddaughter, Polly, that helped the three-strikes initiative win overwhelming support in the 1994 ballot.

Perhaps the best argument, however, is that the Three Strikes law is not nearly as relevant to lowering crime as Mr Jones likes to claim. After all, crime has gone down not just in California but across the country. Indeed, Vincent Schiraldi and Geri Silva, two critics of the three-strikes law, calculate that crime fell 11% more in the 24 states without such a law. More tellingly they note that, within California itself, counties that make greater use of three-strikes sentencing show worse crime rates than those that do not. Los Angeles County, for example, “strikes out” defendants at nine times the rate of San Francisco County, yet since 1993 violent crime in San Francisco has fallen 24% more than in Los Angeles. As to California not building more prisons, this is nothing for Mr Jones to be proud of: the average occupancy of the state's jails, which cost the state's taxpayers around $6 billion a year, is now double their designed capacity.

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Political hopefuls

Badnarik victorious

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The Libertarians choose their man

AP

SINCE 1971, when it first appeared, the Libertarian Party has been one of the stranger creatures roaming America's political landscape. Anti-tax, pro-liberty and pro-dope, it regularly fields candidates for local office in nearly every state. But the political mainstream remains far distant: the party has fewer than 20,000 members, and its presidential candidate in 2000 received just 380,000 votes.

At last weekend's party convention in Atlanta, the mostly white, middle-aged members enjoyed swapping their experiences of living in a police state. After the first round of voting, the delegates watched a video message from a former Libertarian candidate and marijuana-grower in California who had fled to Canada, claiming political asylum. Visitors could munch on hemp-seed pretzels, exchange their limp greenbacks for silver “Liberty Dollars”, or sign up to join the Free State Project, which recruits libertarian-minded voters to move en masse to no-income-tax New Hampshire.

Yet the Libertarians could be in better shape this year than at any time since 1980, when their presidential candidate got nearly 1m votes. The party's platform, which revolves around curbing government, could appeal to fiscal conservatives disillusioned with spiralling spending. It is pro-choice, and dislikes laws governing sex between adults; it generally favours immigration, opposes the Iraq war and abhors the Patriot Act. It could draw a number of Republicans who have either become disillusioned with the war and the neo-conservatives, or who never liked them in the first place.

So who should lead this vital force? The favourite going into the convention, having won the party's five state primaries, was Gary Nolan, a genial former Republican talk-radio host from Ohio; his main opponent was Aaron Russo, a former movie producer who once ran for governor of Nevada. (Libertarian presidential candidates tend not to have served much time in office.) Mr Nolan struck most of the delegates as solid but unexciting. Mr Russo, by contrast, promised professional TV commercials and greater exposure for the party—which might have worked, had his campaign promises not included abolishing the Federal Reserve, and his campaign literature not been bundled with a newsletter called the Western Libertarian Alliance, which included tips on how to make sure your new baby does not receive a Social Security number.

The third candidate, Michael Badnarik, a computer-programmer from Texas, entered the convention as a dark horse: unlike the other two hopefuls, he had not even rented a room for his campaign headquarters. But since January 2003 Mr Badnarik has been criss-crossing the country, making speeches and teaching a freelance class on the United States constitution to anyone who will listen. He impressed the 800 delegates so much that, on the third round of voting, he won easily.

That stunned him. Earlier, talking to supporters, he had sounded more like a college professor than a politician. Did he think al-Qaeda was behind the September 11th attacks? He was not sure: “I know I don't necessarily believe everything the federal government tells me.” From a Libertarian's point of view, an excellent answer. Elsewhere Mr Badnarik has promised, if elected, to wear his handgun during state-of-the-union addresses, blow up empty United Nations buildings and require violent criminals to lie in bed all day for the first month of their incarceration. But he received a standing ovation and a pledge of support from Mr Russo, who begged the audience for more money to promote the presidential campaign.

Mr Nolan, sorely disappointed, seemed to be the only candidate to realise that the Libertarian Party's lack of draw has something to do with its message. “You can't tell a guy with two cars in the garage, ‘This is a totalitarian government',” he said before the vote. “He'll think you're nuts.” It is a truth Libertarians have been wrestling with ever since they began.

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The electoral week

On the trail

Jun 3rd 2004
From The Economist print edition

Just say no

“I spent several years in a North Vietnamese prison camp, in the dark, fed with scraps. Do you think I want to do that all over again as vice-president of the United States?”

Senator John McCain keeps denying that he'll be John Kerry's vice-president. Late Night with Conan O'Brien, NBC, May 27th

Retail therapy

“I had some guy come in and buy [the talking President Bush doll] and he was cussing it out as he was making the purchase.”

Barris Vinogradov, manager of “It's Another Hit”, a comic and action-figure store in New York. Wall Street Journal*, May 28th*

New toy

“He really liked showing it off. He was really proud of it.”

George Bush has the pistol that Saddam Hussein was holding when he was captured in Iraq. It is apparently kept in the room where Bill Clinton thrilled Monica Lewinsky. Time*, June 7th*

Double entendre of the week

“I try to give people a feel for what it's like to be president.”

Mr Clinton on his memoirs, out this month. Associated Press, May 27th

The bully pulpit

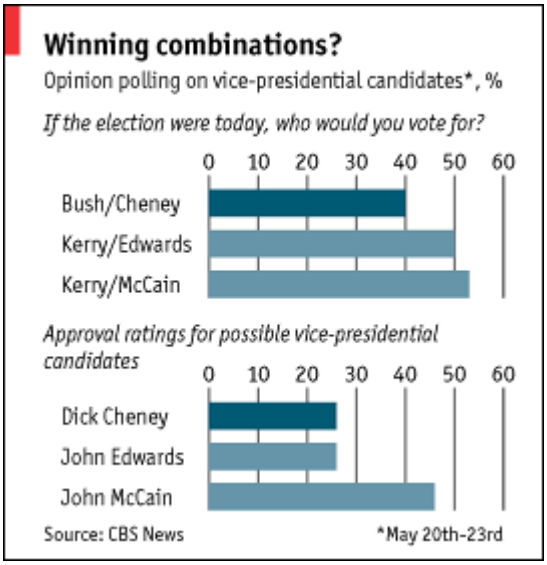
“The Bush campaign is faced with the hard, true fact that they have to keep their boot on his neck.”

Scott Reed, campaign manager for Bob Dole's presidential run, commenting on Washington Post data showing that three-quarters of President Bush's ads were negative compared with 27% of Mr Kerry's. Washington Post*, May 31st*

Fly me to the moon

“On the one hand, the president can't fly coach. But on the other hand, taxpayers are in essence subsidising campaign trips.”

Bill Allison, of the Centre for Public Integrity, on the use of Air Force One for campaigning: 68,000 miles so far this year. Associated Press, May 30th



Broad brush

"Beware of the presidential candidate who just sort of says with a big paintbrush we're going to make everything all right overnight."

John Kerry, Washington Post, *May 30th*

Superstar

"It was like working the rope with Elvis Presley. People just wanted to touch him and get his autograph."

Minnesota Democratic chairman Mike Erlandson on John Edwards's star appeal. Charlotte Observer, *June 1st*

Slogan of the week

"I ask you to help us let America be America again."

John Kerry borrows a soundbite from Langston Hughes's 1938 poem. May 27th

Word of the week

"It is fair to say that we haven't seen the John Kerry who can coldcock George Bush."

Ralph Whitehead of the University of Massachusetts, The Nation, *May 27th*

Osamagate

"Yes, I think down at the Watergate Hotel."

Bob Dole on rumours that Osama bin Laden is being held by the Americans. "Hardball", MSNBC, May 27th

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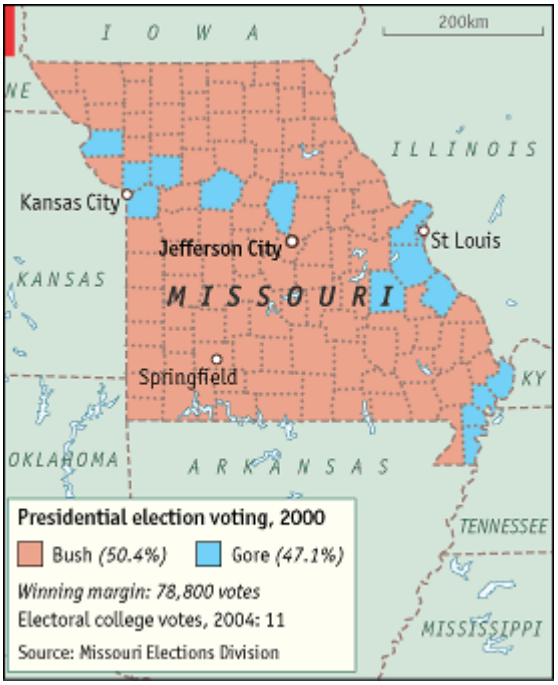
Swing states

The bellwether

Jun 3rd 2004 | ST LOUIS
From The Economist print edition

As Missouri votes, so votes the rest of America



MISSOURI has an almost mythical reputation in American presidential politics. The candidate who carries it has won the presidency in every election, bar one, since 1900. (The exception was 1956, when Missourans supported Adlai Stevenson over Dwight Eisenhower.) Although it has only 11 electoral college votes, the Show Me State is routinely showered with attention from presidential candidates and deluged with political ads.

But even by Missouran standards, 2004 looks likely to set records. George Bush has already visited the state 17 times during his presidency; John Kerry has been there seven times. With more than five months to go until polling day, around 13,000 political ads have already been shown on local television stations, according to TMSMI/CMAG, a firm that tracks political advertising. Both campaigns are likely to spend more money per voter in Missouri than in virtually any other state.

The reason is that the state is one of the most evenly divided in the country. In 2000 Missouri saw three very tight races, as well as Florida-style recriminations after judges ordered polling booths in St Louis to stay open longer. Mr Bush beat Al Gore by 50% to 47%, but by the slimmest of margins the state opted for a Democratic governor, Bob Holden, and a Democratic senator, Jean Carnahan (her husband, the official candidate, had died in a plane crash a few weeks before election day). In 2002, a Republican, Jim Talent, turned Mrs Carnahan out of the Senate, but again by a tiny margin.

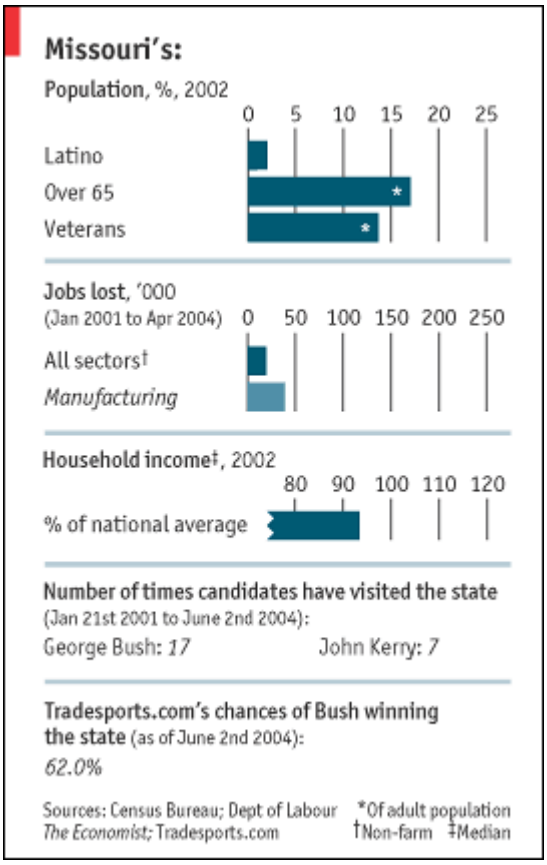
Sitting smack in the middle of the country, Missouri is a microcosm of America. It reaches from mid-western farm plains to counties that are firmly part of America's South, complete with evangelical churches and country music. Dave Robertson, a political scientist at the University of Missouri-St Louis, describes his state as a combination of the mid-South and the upper mid-west. Its electoral returns, he claims, look much like an amalgam of North Carolina and Michigan.

Missouri's political evolution has closely mirrored broader national trends, particularly a sharp divide

between rural and urban voters. The state's two big cities, St Louis and Kansas City, are staunch, pro-union Democratic strongholds with sizeable black minorities but declining populations. In 2000, both voted overwhelmingly for Mr Gore. Outside these two centres, however, Missouri is quintessential conservative “Red America”. In 2000, rural and small-town Missouri voted 58% for Mr Bush.

At the margins lie the suburbs, and many swing voters. Broadly, the inner suburbs are trending Democratic as more blue-collar voters move out of the inner cities. The sprawling outer suburbs, in contrast, trend Republican. In St Charles County, a fast-growing mass of new houses, trimmed lawns and good schools, residents cast more votes than St Louis city in 2000, and they were largely for Mr Bush.

The economic trends of the past four years are likely to reinforce this political breakdown. Missouri has lost 40,000 manufacturing jobs since 2000, mainly in the industrial urban centres. Overall, however, the state has fared better than many battleground states. Its unemployment rate, at 4.7%, is far lower than the national average. In recent months, its job growth has been amongst the fastest in the nation.



Nonetheless, the Missouri race will be tight, placing a huge premium on voter turnout, which in turn depends on party organisation. The Republicans, for now, seem to have the upper hand. The Bush/Cheney re-election campaign has had a fully staffed office in Missouri for months. It has appointed volunteer “county directors” in each of the state's 114 counties and claims to have signed up 25,000 grass-roots volunteers already. These volunteers sign up yet more recruits by holding “parties for the president” and setting up shop at local sporting and civic events.

The Democratic effort is more disjointed. New groups, such as America Coming Together, are playing an important role in registering potential Democratic voters. They are working closely with the unions, long an important machine in Missouri politics. Democrats also have thousands of volunteers signed up and co-ordinators in every county. But John Kerry's state campaign director has only just been appointed. Worse, the state Democratic Party is in the midst of bruising internal rifts.

After a lacklustre term, the governor, Bob Holden, is being challenged for the Democratic nomination by the popular state auditor, Claire McCaskill. That primary takes place in August, and most political observers expect a bruising battle. Republicans, meanwhile, are united behind their candidate for governor, Matt Blunt, a 33-year-old who is currently secretary of state and comes from one of the most powerful Republican families in Missouri.

The Republicans are also working hard to push issues that fire up their conservative base. On the last day of its legislative session in May, Missouri's Republican-controlled legislature voted to put a constitutional amendment banning gay marriage on the November ballot. Ostensibly, this was designed to prevent Massachussetts-style decisions by Missouri's judges. But the real purpose is to get a subject on the ballot that will draw conservative voters. Missouri is a socially conservative state: pro-guns, pro-life and firmly against gay marriage. In a close race this November, a few thousand extra social conservatives at the polls could prove decisive.

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Lexington

Belief and the ballot box

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From The Economist print edition

Religion affects politics in subtler ways than you may think

FOR years, the dominant story about religion in American politics concerned the religious right. White evangelical Protestants aligned themselves with the Republican Party and formed a large part, maybe a fifth or a sixth, of the Republican coalition. Evangelicals thought of themselves as outside the mainstream, alternatively disgusted by it and called upon to change it. So when religious concerns emerged in the public sphere, they seemed to present a clash between evangelicals and the rest of America, all mediated by intra-Republican-Party politics.

This view is looking more and more dubious. Increasingly, the defining political-cum-religious conflict in America is between aggressive Republican evangelicals on the one hand and an equally aggressive Democratic group of secularists on the other. Yet at the same time, the manner in which people worship, and their attitudes towards their faith, are becoming more important in determining people's politics than their denomination alone (whether they are evangelical, or Catholic, or what-not). In politics, these trends are pulling in opposite directions.

The evangelicals' support for Republicans has not changed. Indeed, it has grown, as evangelicals come to recognise George Bush (formally a member of the mainline Protestant Methodists) as one of their own. According to a new survey of voting intentions by John Green of the University of Akron, 77% of evangelicals say they will vote for Mr Bush, easily the highest level of support for the president among any large group of voters.

At the same time, an almost precisely corresponding group of voters is emerging on the Democratic side. This is the secular left: people who say they are not affiliated with any church and who never, or hardly ever, set foot in one. Three-quarters of those who describe themselves as atheists or agnostics back John Kerry. This looks much like the 2000 election campaign, when the number of times you went to church was the single best predictor of which candidate you would vote for.

In his recent book, “The Two Americas” (St Martin's), Stan Greenberg, Bill Clinton's old poll-sifter, describes secular voters as “the true loyalists” of the Democratic Party. They are second only to blacks in their party affiliation and on social issues, such as health care, taxes and education. On cultural issues—gun-control, immigration—they are more reliably Democratic than blacks. They account, according to Mr Greenberg, for about 15% of the Democratic base, a fraction below the share of white Protestants in the Republican base.

The close association of secular voters with the Democrats is actually a problem for the party. Over 90% of Americans say they believe in God and two-thirds claim to be members of a church. Secularists are a minority, albeit a growing one. Moreover, while religious intolerance has more or less disappeared from American politics, there is one exception. Voters do not like atheists: 41% say they would never vote for one, far more than say they would not vote for an evangelical, Catholic or Jew. No wonder the Catholic Mr Kerry has been loudly proclaiming his faith, even though he would be banned from communion in the diocese of Colorado Springs for supporting abortion choice.

Traditionalists, centrists, modernists

If you look at the extremes of the political spectrum, therefore, you see a clash of evangelicals against secularists, of religion against irreligion. That is worrying for Democrats. But if you look across the whole spectrum you see a different pattern, one with chances for Democrats and some risks for Republicans.

The University of Akron's survey divides up religion in America not just by denomination but according to adherents' attitudes to doctrine and belief. All evangelicals, for example, emphasise personal salvation, Biblical literalism and spreading the word of God. But not all do so to the same degree. Those who express the firmest confidence in their doctrine, and who go to church most frequently, are labelled “traditionalists”. Those who express the most doubts or who go to church infrequently are “modernists”. In between is a group of “centrists”. The same divisions are made for Catholics and mainstream Protestant denominations, such as Methodists and Lutherans.

The new study shows a striking alignment between religious attitudes and politics. In the ranking of support for President Bush, evangelicals do not come first followed by mainstream Protestants and Catholics (traditionally part of the Democratic base). Rather, all the traditionalists come first, then all the centrists, and lastly the modernists. Traditionalists of different denominations have more in common with one another than with members of the same denomination. And the same holds true for centrists and modernists.

Thus if you take Mr Bush's net job approval (those who say he is doing an “excellent” or “good” job minus the “poor” and “very poor” ratings), you find the range among evangelicals is wide, 57 points. Among mainstream believers it is even wider, 68 points. But between the various traditionalists it is only 23 points, between the centrists 22 and, among the modernists, just 16. In politics, it seems, religious attitude trumps denomination.

And that contains good news for Democrats. In the middle of the spectrum you find the swing voters of faith, the religious equivalent to purple states. Centrist mainstream Protestants support Mr Bush by a few points. Centrist Catholics and modernist evangelicals support Mr Kerry by the same narrow margin. In all, these are nearly a fifth of all voters.

If Democrats become the party of secularists, they are doomed to a minority existence and Republicans will become, by default, a majority party based on religion. But that is not inevitable. The new battleground of American politics is about religious attitudes as much as affiliation. And here Democrats can be as competitive as Republicans.

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Canada's election campaign

Fistfuls of health dollars

Jun 3rd 2004 | TORONTO
From The Economist print edition

All the politicians say they would throw more public money at a creaking health-care system. Better to encourage competition among providers

Get article background

ASK Canadians what makes their country a better place to live in than the United States, and close to the top of their list is sure to be the way it cares for its sick. But much as Canadians cherish their publicly-funded, open-to-all Medicare system, they are also fed up with long waits for tests and surgery, a shortage of family physicians and surly treatment at hospitals.

This discontent makes health care the biggest issue in the campaign for this month's general election. The election is unexpectedly open: a poll this week by Ipsos-Reid put the Conservatives within four points of the Liberals, who have governed Canada since 1993.

That may be making the politicians risk-averse. To judge from the campaign rhetoric, the best way to improve Medicare is to throw more—lots more—money at it. The prime minister, Paul Martin, promises that the Liberals will spend an extra C$9 billion ($6.6 billion) over the next five years, mainly in the form of extra transfers to the ten provinces. (It is they, rather than Ottawa, who administer health care.) The left-of-centre New Democrats have pledged an improbable C$28 billion over the same period. Even the Conservatives say they would add a costly prescription-drug plan to public health insurance.

Certainly, the provinces' health budgets are already spiralling out of control. According to the Canadian Institute for Health Information, a quango, spending has ballooned more than tenfold since 1975, rising from 7% to 10% of GDP. Of the rich countries, only the United States and Germany spend a larger share of national income on health.

Ontario, the most populous province, has earmarked 45.4% of its total current spending for health care in the fiscal year to March 2005, up from 33.5% ten years ago. Penny Ballem, the top health official in British Columbia, says that if spending continues to grow at its present rate, by 2016 in her province “there will be no ministries other than us and education”.

Just a few months ago, Mr Martin insisted that the federal government could not spare any more money for health care. Whoever wins the election, finding the promised cash may involve the kind of about-face recently performed by Ontario's Liberal premier, Dalton McGuinty. He won power in a provincial election last year partly by promising not to increase taxes. Now he has imposed a new “health-care premium” of C$50 a month for an average family. Alberta and British Columbia, both with right-of-centre governments, apply similar levies. But Mr McGuinty's move is damaging Mr Martin's chances in Ontario,

the election's crucial battleground.

Even as they spend more, the provinces are trying to hold down costs by squeezing the list of services covered by public health insurance. Ontario recently dropped eye tests, physiotherapy and chiropractic treatments. Such restrictions risk creating precisely the “two-tier” American-style system that Canadians abhor. Demand is billowing for private insurance to provide benefits no longer covered by Medicare.

At least part of the solution to Medicare's financing crunch could indeed lie with the private sector—as a supplier rather than an insurer. The politicians, fearful of being accused of favouring a “two-tier” system, have shied away from acknowledging this. The health minister, Pierre Pettigrew, said shortly before the election was called that the government would not object if private companies played a bigger role in health-care delivery. He was forced to retract just a day later.

Even the Tories have pulled back from earlier calls for a wider private-sector role. They have gleefully revealed that Mr Martin's personal doctor is also the chief executive of a Montreal company which provides medical services for a fee, enabling the better-off to bypass the creaky public system for an MRI scan or an annual check-up.

Much of the opposition to private delivery comes from powerful public-sector unions. Some 43,000 hospital workers in British Columbia went on strike in April over plans to outsource some services. In Ontario, protests have held up construction for more than two years of two big hospitals—one in Ottawa and the other in Brampton, a Toronto suburb—both planned as public-private partnerships.

Even so, several provinces are quietly opening the door to more active private-sector involvement, by finessing the Canada Health Act's bedrock principles of universal access and a single public-sector insurer. There are two grey areas. The act's principles apply only to “medically necessary” treatment. Second, bodies such as workers' compensation boards, the police and the army can bypass the public hospitals to get speedier treatment.

Burgeoning demand thanks to these loopholes has spawned an array of privately-owned clinics, such as those run by Mr Martin's doctor. These are taking over a widening variety of treatments from hard-pressed public hospitals. Alberta's Conservative government has gone a step further by hiring outside contractors to provide routine medical services for the general population. In Calgary, private clinics now perform all cataract surgery and many hernia, foot, and ear, nose and throat operations, with the costs covered by the provincial health plan.

Once the campaign is over, the healthcare debate is likely to focus increasingly on finding the best balance between public and private delivery. Brian Day, the director of a private clinic in Vancouver which has recently applied to do hip replacements, says more competition and more private-sector insurance would improve treatment and attract new investment. The present system “is like having a single airline or a single telephone company,” he says.

Others note that private providers are not a panacea. A report in British Columbia last year concluded that most of the business of the private laboratories comes from a small range of high-volume, low-cost tests, and that they neglect rural areas. The laboratories are now fighting a government proposal to inject more competition into the contracting process.

The real challenge for the politicians is to encourage genuine competition among providers without eroding the single-payer principle supported by a large majority of Canadians. But that is a less attractive message than all those dollar signs. So voters may not hear much about it.

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Race in Bolivia

Two countries in one

Jun 3rd 2004 | LA PAZ
From The Economist print edition

Ugly home truths and falsehoods

Get article background

AFP

She just likes dressing up as an Indian

BEAUTY contests can be political minefields—even in Latin America, which tends to like them (and win them). Asked to dispel misconceptions about her native land, Gabriela Oviedo, Bolivia's contestant in this week's Miss Universe show, created another one. Not all Bolivians are short, dark and Indian, she said; she comes from the eastern lowlands, where people are "tall...white...and know English."

Ms Oviedo's gaffe incensed many Bolivians. They saw it as typical of the racism of the wealthy elite, and called for her withdrawal. She was also inaccurate. Her home city, Santa Cruz, is a boomtown fuelled by oil and soya. But many of its residents are impoverished Indian migrants.

In one respect, Ms Oviedo, a business student, was right. Bolivia is an increasingly divided country. Last October, the Andean Indians of its western half toppled Gonzalo Sánchez de Lozada, a pro-American president. To try to blunt their opposition to natural-gas exports, the new president, Carlos Mesa, has organised a referendum proposing new taxes on foreign energy firms and a bigger role for the state in oil and gas.

Santa Cruz and the lowlands are furious. They are robustly capitalist places; their businessmen are alarmed at Bolivia's lurch away from the market. A Santa Cruz newspaper, *El Deber*, summed up local feeling when it criticised "a wave of over-reaction" to Ms Oviedo's remarks, which it found "neither racist nor offensive". Mr Sánchez de Lozada worries that Bolivia may break into two. Certainly, keeping it in one piece will require much tact and skill from Mr Mesa.

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Venezuela

Authenticated, but not quite agreed

Jun 3rd 2004 | CARACAS
From The Economist print edition

At last, a recall referendum nears

EPA

Carter put Chávez on the spot

Get article background

ON THE evening of May 31st, when Jimmy Carter, a former American president, and César Gaviria, the secretary-general of the Organisation of American States, marched grim-faced into the headquarters of the National Electoral Council (CNE), prospects for a peaceful solution to Venezuela's political conflict looked as solid as a snowball in a microwave. Hundreds of thousands of opposition supporters had just taken part in a laborious three-day exercise to confirm their signatures on a petition for a recall referendum on President Hugo Chávez. Yet 24 hours later, Mr Carter and Mr Gaviria found that the counting of signatures had not even begun. Their intervention changed that. But will it be enough to ensure the referendum goes ahead?

A leftist former army officer with a distaste for representative democracy, Mr Chávez himself inserted the recall referendum into a new constitution. But he and his supporters (who control the CNE and most of the courts) have turned somersaults over the past 18 months to avoid a vote which most polls suggest the president would lose. Last December, the opposition handed in 3.4m signatures, a million more than the number required to trigger the vote. The CNE rejected 1.6m of them, forcing the “confirmation” exercise.

The government had threatened the petitioners with everything from the sack to the denial of passports and identity documents. “I'm risking my job,” said Roxana Bolívar, a civil servant, as she stood in line for three hours to confirm her name. “All those of us who signed are being closely watched.” To add to the atmosphere of intimidation, motorcades of *Chavistas* roared up and down the streets; one man on a motorbike carried an automatic rifle.

The rules were changed to allow “repentant” voters to withdraw their signatures. Even so, the opposition claimed that more than enough signatures were authenticated. In a backhanded sort of way, Mr Chávez seemed to agree. The CNE was not expected to announce the result until June 4th at the earliest, but by midweek the president was grumbling of “fraud” and of “cloned” identity cards (planted, says the opposition).

Mr Chávez is a man with a remarkable talent for turning defeat into victory, and for wrong-footing his opponents. Even if the CNE gives the go-ahead, the courts may yet step in to block the referendum.

“We're putting our trust in the international organisations, the press, other countries,” Ms Bolívar said. They will have a chance to redeem her faith when the Organisation of American States holds its annual meeting in Ecuador next week. Ensuring that Venezuelans are allowed a democratic vote is at the top of the OAS's agenda.

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Mexico

Fox turns on friends

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An unstoppably premature campaign

AFTER attending a low-key summit between leaders of the European Union and Latin America in Guadalajara last week, Felipe Calderón, Mexico's energy minister, spoke at a rally in the city promoting his candidacy for the presidency in 2006. Nothing unusual for a politician, you might think. Vicente Fox, the current president, thought otherwise. Enraged, he upbraided his “impudent” minister, who promptly quit over the president's “unjust and disproportionate” remarks.

A minor, if ugly spat, but it is one that shows that though Mr Fox is little more than halfway through his term, the succession is already overshadowing all else in Mexican politics. That is mainly because Mr Fox, an ineffectual president facing an awkward opposition-dominated Congress, has achieved little, and can aspire to even less.

Losing Mr Calderón looks particularly careless. He is a senior member of Mr Fox's conservative National Action Party (PAN), having been the party's chairman and its leader in Congress. Mr Fox's own relations with the party are often distant. He brought Mr Calderón into his Cabinet last year specifically to strengthen the ties between government and party.

Those ties now look strained—especially since Mr Fox's jibes at Mr Calderón smack of hypocrisy. *Panistas* pointed out that Mr Fox himself had famously staged a three-year campaign to win his party's nomination for the 2000 election. They also noted that his wife, Marta, who has her own presidential ambitions, used the Guadalajara summit for a spot of self-promotion. Mr Fox may be able to scold some of his ministers but not, it seems, Marta, nor Santiago Creel, the interior minister and his apparent favourite for 2006.

Mr Fox has long been at loggerheads with the main opposition, the Institutional Revolutionary Party. He has recently fallen out with the left-wing Party of the Democratic Revolution. The government is trying to strip its standard-bearer, Andrés Manuel López Obrador, the mayor of Mexico City, of immunity from prosecution for a land deal, thus thwarting his candidacy. A breach with his own party would leave Mr Fox looking friendless.

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Cuba

Hoping for a transport revolution

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A closely watched search for oil

A NORWEGIAN deep-water oil rig, hired by Spain's Repsol, was moving into position this week off Cuba's north-west coast to sink two wildcat wells in the island's virgin Gulf of Mexico waters. Success could turn Cuba into an oil exporter, transforming the economic outlook for Fidel Castro's bankrupt Communist regime. And a find so close to its home patch might cause the American oil industry to throw its weight behind moves to abandon the trade embargo against the island.

Cuba's share of the Gulf was fixed by agreements signed with the United States and Mexico in the late 1970s, before new technologies made deep-water oil development possible. It was parcelled into 59 blocks for foreign exploration in 1999. Only Repsol and Sherritt International, a Canadian firm, have signed exploration agreements; other companies are said to be watching how they get on—and the reaction of the United States.

Many experts say there is lots of oil under Cuba's Gulf waters, as under those of Mexico and the United States. Repsol's geologists are said to be confident they have found some, though they are unsure of its quality. Any commercially viable deposit would take five years and $1.5 billion to develop, according to a study by Lloyd's Register, a consultancy.

Cuba has suffered energy shortages since it lost cheap Soviet oil imports. Mr Castro turned to foreign oil companies, who have explored onshore in risk-sharing partnerships with the state oil firm. But they have made only minor discoveries in an established small field of heavy crude along the north-west coast.

Output of oil and gas has risen from less than 10,000 barrels per day in 1991 to the equivalent of 75,000bpd—or half today's scanty consumption. The lights are more or less back on. But fuel and energy are strictly conserved, and transport is scarce, with oxen more common than tractors in the countryside. An offshore oil strike would allow Mr Castro to offer Cubans and the country's creditors some relief after 15 years of penury.

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China

Where are they now?

Jun 3rd 2004 | BEIJING
From The Economist print edition

Alamy

Fifteen years after the Tiananmen massacre, organised dissent is non-existent

Get article background

YUAN LI'S grave is weather-beaten, 15 years after he was shot in the neck during the crushing of the Tiananmen Square protests. But the bespectacled face of the 28-year-old scientist still stares out clearly from a black and white picture embedded in the stone. And so fresh are the authorities' memories of the student-led uprising in 1989 that every year on the anniversary of the bloodshed they send police to watch the grave and others like it for fear that the grief of mourners might turn into public protest.

Most visitors to Wanan Cemetery at the foot of the scenic Fragrant Hills in western Beijing would see nothing unusual in the stone that marks the cypress-shaded spot where Mr Yuan's ashes are buried. Relatives avoided antagonising the government by making no explicit reference to the cause of death on the stones and plaques commemorating Tiananmen victims that are scattered around Wanan and other city cemeteries. An inscription on Mr Yuan's grave refers to the sudden and unjust nature of his death, but similar words might apply to a car accident.

The government has tried hard to dull memories of the upheaval of 1989 and its violent suppression. Public discussion of what happened between April 15th and June 4th that year is completely taboo. Notwithstanding the supposed power of the internet to provide uncensored information, Chinese outside Beijing, and even younger residents of the capital, often appear unaware of the scale and ruthlessness of the military action that left hundreds of unarmed protesters and bystanders dead. This week's 15th anniversary of the crackdown will likely pass unnoticed by most Chinese, except in Hong Kong where thousands were expected to attend an annual candle-lit vigil on Friday.

Yet even if Tiananmen is seen by most ordinary Chinese as an issue of little relevance, it is still considered such a sensitive point within the Communist Party that elaborate security precautions have been taken in the past few days to prevent even the smallest public commemoration. The homes of Beijing's tiny band of outspoken dissidents and campaigners on behalf of relatives are under police guard. Ding Zilin, the mother of a victim, says the police even escorted her on a hospital visit.

Why should they bother, given that so few people in China these days display much interest in politics, let alone in Tiananmen? The messy transition to liberal capitalism experienced by former communist societies elsewhere, particularly Russia, is seen by many as a good reason for abandoning any aggressive pursuit of democracy. Stone Chen, a 36-year-old businessman in Beijing who was among the hunger-strikers in Tiananmen in 1989, says some activists then were “too radical”.

China's leaders may have blunted the political aspirations of the Tiananmen generation by loosening social controls and allowing unprecedented economic freedom (Mr Chen says many of his Tiananmen-era friends have become successful businesspeople). But they also know that even prospering urban areas have large numbers of disaffected poor who might seize on any political retreat by the party to air their grievances forcefully.

Urban protests have become increasingly common in recent years, although most are small: politically organised opposition is tiny, fragmented and deep underground. Murray Scot Tanner of the RAND Corporation, an American think-tank, argues in this summer's *Washington Quarterly* that efforts to control this unrest will "force Beijing's leaders to face riskier dilemmas than at any time since the 1989 demonstrations". Tactics such as offering economic concessions to demonstrators (a common approach these days) and, more crucially, reforming unresponsive political and legal institutions risk further encouraging protest. But, Mr Tanner suggests, these risks must be taken if China wants to defuse grievances effectively and avoid another choice between a violent crackdown or the loss of political control.

Some party officials accept the pressing need for China's sclerotic political structures to begin adapting to the changes that have swept the rest of society. An unusually strongly worded critique of China's political reforms published last August by the Central Party School, the country's training centre for top cadres, argued that successive efforts to revive the reform process since Tiananmen had failed to address the "root cause of the illness". This, it said, was over-concentration of power at the top of the party hierarchy.

AFP

Tiananmen, 1989

The book called for term limits for party leaders, provisions whereby members of the top echelon could dismiss the party chief, and an end to the practice of leaders choosing their own successors. It also called for a clearer separation of powers between the party's policymaking branch, its executive organs and its disciplinary body. And it suggested more competitive elections for leadership posts in which voters (party members, that is), not just leaders, have the right to nominate candidates.

All very fine-sounding, but China's current leaders appear little inclined to experiment with such radical changes at the top, or indeed anywhere else. And they have given no hint that democracy might be significantly extended among the 95% of citizens who are not party members. Indeed, in the past two or three years they have sought to re-establish control over village affairs by party secretaries rather then democratically elected village chiefs. This marks a retreat from the vision of direct elections gradually spreading upwards from the village level that was long touted as the way in which China might gradually produce the political counterpart to its economic transformation.

And no Chinese leader has shown any willingness to revise the official view of Tiananmen, despite the repeated pleas of Yuan Li's parents and scores of others in Beijing. The liberal party chief at the time of Tiananmen, Zhao Ziyang, is still under house arrest, from which few expect him to emerge. A former Tiananmen activist who is now president of a prominent high-tech firm in Beijing speculates optimistically that the massacre might be re-evaluated in five or ten years, after former president Jiang Zemin—a direct beneficiary of the crackdown—disappears from the political scene. "People would take to the

streets to celebrate," he says. And so, for all their silence now, they probably would.

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India's opposition

Bad losers

Jun 3rd 2004 | DELHI
From The Economist print edition

An ousted ruling party looks for scapegoats and saviours

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AFP

Advani and Vajpayee in happier times

LIKE mourners bickering at a funeral, members of the Bharatiya Janata Party (BJP) are busily apportioning blame for their surprise defeat in the elections held in India in April and May. They are also squabbling over its future direction and leadership, and over how to handle a revolt in the ranks in the state of Gujarat against the leadership of Narendra Modi, the chief minister, and most controversial of all BJP politicians.

On one side are those who think the party needs to broaden its appeal as a moderate, centrist, force. On the other are those who want the BJP to reassert its identity as the champion of India's Hindu majority. The BJP is the political branch of a "family" of Hindu organisations, whose parent is the Rashtriya Swayamsevak Sangh (RSS). Many within the RSS believe that the election was lost because not enough attention was paid to the movement's core purpose, the promotion of *Hindutva*, or "Hinduness".

The former prime minister, Atal Behari Vajpayee, seen as a moderate, managed to keep these different strands together during the party's six years in government, but he is 79 and retreating from the front line. He will remain chairman of the BJP's parliamentary party and of the National Democratic Alliance, the coalition of a dozen parties it led in the outgoing government. But the formal leader of the opposition—and, as the leader of the BJP's parliamentary group, its most public face—will now be Lal Krishna Advani, who was Mr Vajpayee's deputy prime minister.

Mr Advani is trying to live down his image as a tub-thumping hardliner. In the early 1990s, he dragged the BJP from the political fringes to the verge of national power by leading a divisive campaign for the construction of a Hindu temple in Ayodhya, where a mosque then stood. He is 76 and so presumably cannot hope to be more than an interim leader. But who could succeed him?

A number of younger politicians, jostling for prominence, have suffered setbacks. Sushma Swaraj, the outgoing health minister, became a figure of fun after promising to shave her head if Sonia Gandhi, the Italian-born leader of the ruling Congress party, became prime minister. Pramod Mahajan, a BJP general secretary, and Arun Jaitley, the former commerce minister, were seen as brilliant political strategists. Yet the BJP's election campaign, boasting of economic successes invisible to many voters, was a disaster.

Moreover, none of these is an elected politician with a mass power base. Gujarat's Mr Modi, on the other hand, led the BJP to a landslide in state elections in 2002, and has a devoted following among hardcore BJP and RSS activists. However, he is loathed and feared by India's large Muslim minority and by liberals across the country. His government was accused of complicity in anti-Muslim riots in Gujarat in 2002, when perhaps 2,000 people were killed. Not a single murder has since led to a conviction. In April, the country's Supreme Court called Mr Modi's government "modern-day Neros", and accused it of having "sympathies more for the accused than the victims".

Nationally, although Mr Vajpayee has blamed complacency rather than Gujarat for the NDA's poor electoral showing, not all his alliance partners agree. That, however, is not why Mr Modi is in political trouble. In the parliamentary elections, the BJP's share of Gujarat's 26 seats fell from 20 to 14, and he

has since faced a rebellion from 62 of the BJP's 127 members of the state assembly against what Rajendrasinh Rana, the BJP's state president, calls his “autocratic type of functioning”.

His problems stem in part not from alleged bigotry but from economic reformism. A powerful RSS-affiliated farmers' organisation has turned on him for raising electricity tariffs. In the past, Gujarat, like some other states, has courted bankruptcy by doling out free power.

Many observers in Gujarat think Mr Modi is on his way out—if not imminently, then later this year after state elections in neighbouring Maharashtra. He still, however, has loyalists. S.K. Modi (no relation), his authorised biographer, thinks the BJP lost not because of its perceived extremism but its moderation—a policy of “appeasement” of minorities such as Muslims—that has made it indistinguishable from the Congress party.

This, he says, has disillusioned party workers and undermined campaigning. Worse could follow: “The whole BJP will collapse if Narendra Modi goes.” That is an exaggeration, no doubt. But it highlights the party's real dilemma, for it needs both the votes of moderates and the zeal of the extremists.

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Thailand

Thaksin in trouble?

Jun 3rd 2004 | BANGKOK
From The Economist print edition

Thailand's once-popular prime minister is feeling unfamiliar heat

Get article background

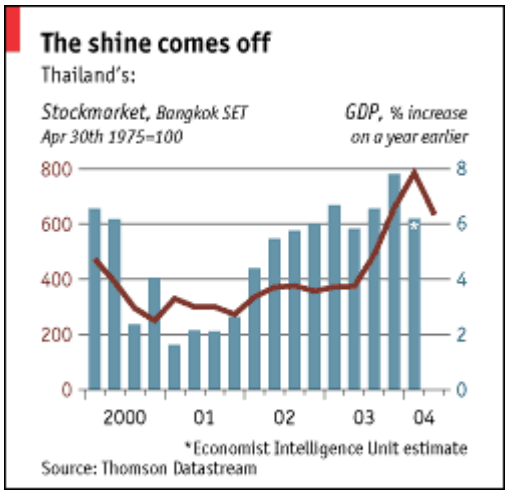
EPA

CEO style stalls

THAKSIN SHINAWATRA, Thailand's prime minister, has found a new gear: reverse. On June 1st, his government backed away from a plan to hold a state-sponsored lottery to buy a stake in Liverpool, an English football team. Two days before, it had called off a planned meeting between a senior general and a separatist leader from the country's restive south, after resistance from ministers and the army. In the past six months, the prime minister has retreated noisily and chaotically from policies on everything from privatisation to licensing hours.

Most of these reversals, admittedly, carry fairly little political cost. The public still generally approves of Mr Thaksin's "social order campaign", even if he has changed his mind a few times about the ideal closing time for bars and strip-clubs. Likewise, many Thais consider Mr Thaksin's proposal to buy a stake in Liverpool exciting and inventive, regardless of how it is paid for. Other problems, such as his government's handling of a recent outbreak of avian flu or the planned privatisation of the Electricity Generating Authority of Thailand, affect quite small slices of the electorate.

Many Thais do find the continuing violence in the Muslim areas of southern Thailand disturbing, especially when it is directed at members of the Buddhist majority. On May 29th, assailants decapitated an elderly Buddhist rubber-tapper and left a message on his corpse threatening to kill more Buddhists if the government continued to harass southern Muslims. But the south has always been restive, and Mr Thaksin is only the latest of many prime ministers to fail to bring it under control. The conflict will do his political prospects serious damage, Thai analysts argue, only if the insurgents begin mounting attacks in other parts of the country. Similarly, on the economic front, even though the stock market is down this year and the government is reducing its growth forecasts (see chart), Mr Thaksin is still thought of as the man who shook Thailand out of its economic torpor after the 1997 crash.



Yet all these setbacks have definitely started to tarnish Mr Thaksin's can-do image. He was the country's richest businessman before taking office in 2001, and promised to govern in energetic and efficient "CEO style", in contrast to the bureaucratic flavour of past administrations. His dauntless approach has resulted in a number of controversial but popular policies, including a scheme to charge only 30 baht (75 cents) for treatment at public hospitals. Yet as far as the mess in the south is concerned, he has changed tack frequently, bickered with his subordinates, issued contradictory statements, and, most recently, admitted to bewilderment.

Now there are signs that the relentless advance of Thai Rak Thai, Mr Thaksin's political party, has stalled. In recent local elections and parliamentary by-elections, it has not swept the board as expected. Over the past three years, it has gobbled up many of the smaller parties in parliament. But the latest victim, Chart Pattana, has proved surprisingly reluctant to merge. Mr Thaksin has not yet managed to persuade any of his party's luminaries to stand for governor of Bangkok in an election this August. He now claims,

implausibly, that Thai Rak Thai is staying out of the race because it does not want to dominate every level of government.

A general election is due by January, but the Democrat Party, the main opposition, seems unable to capitalise on Thai Rak Thai's misfortunes. Its leaders harp on about allegations that Mr Thaksin and his ministers bend the rules to advance their business interests, something the public has long suspected and cares little about. Abhisit Vejjajiva, a Democrat MP, admits that voters do not yet see his party as a viable alternative, despite their disillusionment with Thai Rak Thai. The Democrat leader, Banyat Bantadtan, is older, greyer and far more dour than the gung-ho Mr Thaksin. What is more, Mr Thaksin is still full of ideas—even if many of the recent ones have been duds.

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Australia and East Timor

Beggar thy neighbour

Jun 3rd 2004 | SYDNEY
From The Economist print edition

Rich Australia and poor East Timor are arguing again

Get article background

FOR East Timor, the second anniversary of independence, on May 20th, was not a happy time. The occasion was overshadowed by a bitter dispute with its rich neighbour, Australia, over access to big oil and gas reserves beneath the Timor Sea that divides the two countries, resources which East Timor says would make the difference between economic self-sufficiency and "begging" for aid to survive.

After pressure from East Timor, talks with Australia opened in Dili, the East Timorese capital, on April 19th aimed at establishing a permanent sea boundary, and thus the division of resources worth tens of billions of dollars. The atmosphere was prickly. Alexander Downer, Australia's foreign minister, later accused East Timor of having made "a very big mistake" by "trying to shame Australia, accusing us of [being] bullying and rich and so on, when you consider all we've done for East Timor." Xanana Gusmão, East Timor's president, replies: "We are not shaming Australia. We are only telling the truth."

Australia did indeed play the leading role in the multinational force that oversaw East Timor's transition to independence, after much bloodshed, five years ago. That helped assuage the guilt many Australians felt over their country's acquiescence in almost 25 years of Indonesia's occupation of the former Portuguese colony. But after independence in May 2002, East Timor seemed to recede from the Australian government's radar screen, to be replaced by global terror and chaos in the Solomon Islands.

East Timor, meanwhile, has languished as one of the world's poorest nations. A recent report by Oxfam Australia, an aid agency, said that one in ten East Timorese children was likely to die before the age of five. It claims that Australia has already received ten times more from Timor Sea oil and gas revenue than it has given East Timor in aid since 1999. Canberra's stand on the boundary talks—the agency argues—could "push East Timor to the brink of becoming a failed state". Mr Downer said the report was "emotional claptrap which is being pumped up by left-wing NGOs."

Some of the disputed resources lie in a zone known as the Timor Gap that Australia and Indonesia excluded when they delineated their seabed boundary in 1972. Seventeen years later the two countries signed a deal to divide government revenues from this zone evenly between them. Mr Gusmão now describes that deal as "illegal and illegitimate" because of Indonesia's occupation of East Timor at the time. At independence, Australia signed an interim treaty with East Timor, giving the new nation 90% of revenues from within the "joint development area", as the gap is now called, and Australia 10%.

This arrangement covers the Bayu-Undan gas field, due to start production this year. But it excludes most of Greater Sunrise, a more lucrative gas field that lies mostly outside the area, and all of the Laminaria-Corallina oil field, from which Australia has been taking all revenues since it started pumping in 1999. East Timor suggests putting the money into an escrow account until the dispute is resolved.

In the talks that opened in April, East Timor is asking Australia to agree to a permanent median line between them, which, it argues, would accord with international law. Such a line would place almost all

of the known oil and gas fields in East Timorese waters; Dili's negotiators say this would mean a difference of between $2.8 billion and $8.6 billion in revenues for East Timor. Australia, however, withdrew from the International Court of Justice's jurisdiction on maritime boundary questions shortly before East Timor's independence, so the issue cannot be referred to arbitration. Mr Gusmão says of this: “Australia behaved in bad faith.”

East Timor now wants monthly meetings, with a view to a quick resolution; Australia has put the next lot off until September, proposing only two rounds a year. At such a pace, a lot of the oil will be gone before the dispute is settled.

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Indonesia

No criticism, please

Jun 3rd 2004 | JAKARTA
From The Economist print edition

Free speech takes a tumble

FREEDOM of expression in Indonesia under President Megawati Sukarnoputri suffered a blow this week, with a decision to expel an American researcher working for a well-respected think-tank, the Brussels-based International Crisis Group (ICG).

As the country prepares to hold its first direct presidential election on July 5th, no one is suggesting that Indonesia's transition from autocracy to stable democracy has ground to a halt. But concern is mounting over the use of a mixture of draconian articles in the criminal code and more subtle strategies to silence critics of the government.

Dozens of people have been detained for peaceful political protest in Miss Megawati's three-year tenure, and several newspaper editors have been convicted of libel for headlines—Mega's Mouth Reeks of Oil, to take a recent example—and for cartoons that in democratic countries would be dismissed as part of the democratic rough-and-tumble. Meanwhile, demonstrators have been imprisoned for merely stamping on the president's photo, an action that, she explained, made her want to throw up “like a volcano about to explode”.

The last two weeks have prompted the greatest concern. The government began by ominously announcing that there were 20 local and foreign NGOs that were seeking to undermine national stability and thus posed a threat to the coming election. The only one it named, so far at least, was the ICG and its Jakarta-based South-East Asia director, Miss Sidney Jones.

The attack on the ICG was led by the nation's intelligence chief, Hendropriyono, who labelled the organisation's reports on Indonesia, particularly on Islamic radicalism and the separatism-racked provinces of Aceh and West Papua, as inaccurate, biased and subversive, though he gave no detail.

Perhaps the real reason for the expulsion, which has been widely condemned abroad, is simply governmental chaos. The president, vice-president and many ministers are not only on the campaign trail but are in opposite camps, trying to score points against each other. But until Indonesia gets a new president—a process which could well take four-and-a-half months—powerful individuals and institutions will have free rein to settle old scores.

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Saudi Arabia

Why terrorists are targeting Islam's holiest land

Jun 3rd 2004 | MANAMA, BAHRAIN
From The Economist print edition

AFP

A reactionary regime reacts too slowly to a growing threat

Get article background

IT WAS not the bloodiest of terrorist outrages, nor the boldest, nor the most competently executed. But the attack on oil companies and a smart housing compound in the seaside city of Khobar was in some ways the most disturbing of the string of attacks that has shaken Saudi Arabia since May last year. More than previous incidents, it has focused minds on the stability of a country that is the wellspring of both the Muslim faith and a quarter of the world's oil.

The attack began on the morning of May 29th, when a group of gunmen shot down security guards and entered two office complexes, searching for and murdering anyone who looked vaguely western. Finding few suitable victims, they took off, at one point dragging a bound man behind their car, and at another shooting at a vehicle filled with children on their way to school. Its fuel tank exploded, incinerating a ten-year-old Egyptian boy.

The assailants then tried to ram a car bomb into the gate of Khobar's most luxurious residential compound. When it failed to explode, they scaled the perimeter wall and passed from house to house before occupying the six-storey hotel at the centre of the complex. Most of the guests had already left for work, so the attackers took some two dozen hotel staff hostage, killing the non-Muslims among them.

Helicopter-borne commandos recaptured the building in the early hours of the following morning, but by this time the attackers had already fled. Saudi police soon wounded and captured one, said to be the ringleader, but at least three others escaped in a pick-up truck and later hijacked another vehicle in the nearby city of Dammam. A drag-net across the oil-rich Eastern Province has so far failed to find them.

Even as the drama unfolded, a group calling itself the “Qaeda Organisation in the Arabian Peninsula” claimed responsibility. More incidents soon followed, including a botched shooting attack on American military trainers in Riyadh, the capital, and a police manhunt that left two suspects dead near the western city of Taif.

The official toll at Khobar was 22 killed and 25 injured. Most of the victims were Asian blue-collar workers. Three Saudi security men died, as well as an American, a Briton, a Swede and an Italian. Besides the numbers killed or injured, what really shocked observers was the attackers' calm, methodical

throat-slitting of non-Muslims, their deliberate choice of oil-related targets and the evident inadequacy of Saudi security measures—before, during and after the attack.

Neither the kingdom nor the town of Khobar are strangers to *jihadi* violence. In 1996 a massive truck bomb killed 19 American servicemen in the city. Between 2000 and 2002, it was also the scene of several attacks on western expatriates, incidents that Saudi authorities blamed at the time, rather implausibly, on gang wars over the illegal alcohol trade. Most analysts now believe those sporadic hits were a foretaste of the far more ambitious strikes seen in the past year, which have included five deadly car bombings in Riyadh, shooting rampages, assassinations and gunfights with police (see table). Over the past 13 months, the death toll stands at 85 civilians, most of them expatriates, 12 Saudi policemen and at least 39 terrorists. Hundreds more people have been injured.

Saudis under siege

A chronology of violent incidents in the kingdom

2004	
May 29th	Gunmen kill 22 people in oil-company compounds in Khobar. Al-Qaeda claims responsibility
May 22th	A militant shoots dead a German in the capital, Riyadh
May 20th	Security forces kill five terror suspects in Buraida, in the country's centre
May 1st	Gunmen attack a western oil-company office in Yanbu, on the Red Sea, killing seven
Apr 22nd	Security forces kill three terrorists in Jeddah, on the Red Sea
Apr 21st	Suicide bomber kills five. Al-Haramin Brigades, an Islamist group, claims responsibility
Apr 13th	Four policemen killed in two attacks by militants, after defusing two car bombs in Riyadh
Apr 12th	A suspected militant and a policeman killed in a clash in Riyadh
Apr 5th	Security forces kill a suspected militant in a car chase in Riyadh
Mar 15th	A leading Yemeni al-Qaeda terrorist killed by security forces
Jan 29th	A wanted militant captured after a firefight in Riyadh; five policemen killed
2003	
Dec 8th	Much-wanted terrorist killed in a shoot-out at a Riyadh petrol station
Nov 8th	Suicide bombing on a residential compound in Riyadh kills 17 people
Nov 6th	Two militants blow themselves up during a raid by security forces in Mecca, Islam's holiest city
Nov 3rd	Police surround terrorist hideout in Mecca, killing two who tried to escape
Oct 20th	Security forces raid militants' hide-outs and seize weapons and explosives
Sep 23rd	Three militants and a policeman killed in a shoot-out at a hospital compound in Riyadh
Jul 28th	Security forces kill six suspected terrorists at a farm in Qasim, in the country's centre
Jun 14th	A terrorist cell in Mecca raided; two security agents and five militants killed
May 31st	A key al-Qaeda fund-raiser and two policemen killed
May 12th	Suicide bombers attack three Riyadh compounds housing mostly foreigners, killing 35 people

Sources: Arab News; BBC; Reuters; Saudi-US Relations Information Service

Osama's approval ratings

Aside from the mounting frequency, widening geographical spread and increasing goriness of Saudi terrorism, what distinguishes the violence is that it is explicitly aimed not merely at the "enemies of Islam"—ie, westerners—but also at overthrowing the ruling al-Saud family, who are seen to be aligned with them. This goal brings the *jihadis* a fair amount of local support. Since the Saudi autocracy bans votes and opinion polls, it is difficult to judge how large this is. An online poll of visitors to the al-Jazeera TV channel's website this week offered some clues. Out of 85,000 respondents, a predictable majority answered "Yes" when asked if they thought attacks on foreigners in Saudi Arabia were "bad for the image of Islam". But it was not a large majority: 42% reckoned the carnage was fine for the faith.

Amid the elaborate justifications and gushing praise for the "Khobar Operation" on the many websites devoted to *jihadi* views, one enthusiast even claimed that the al-Jazeera poll had been skewed against the "noble *mujahideen*", thanks to the nefarious electronic meddling of the Saudi secret police. Such paranoia, laced with twisted interpretations of holy scripture, is typical of the online discourse that provides the clearest view of *jihadi* thinking. A further example: one chat-site contributor ascribed the condemnation of the Khobar attack by Hamas, the Palestinian Islamic resistance group that targets Israeli civilians, to its treasonous infiltration by "Muslim Brotherhood stooges".

What the talk reveals is not a broad-based movement but a violent youth subculture obsessed with a sense of Muslim victimhood and a desire for revenge. It is, in some ways, not unlike the militia movement in America which gave birth to the bloody bombing in Oklahoma City in 1995, except that Saudi *jihadi*s can point to real geopolitics, not just fantasies, as justification for their anger. “Would you rather sit in hotel lobbies or join us in the trenches,” taunts another website zealot, posing a question that must appear all too stark to the kingdom's large pool of bored, religiously brainwashed, sexually frustrated and, increasingly, jobless youths.

Most analysts believe that, with a hard core of anything from 500 to 2,000 activists in a country of 25m inhabitants (and an estimated 600 languishing in jail), the Saudi *jihadis* do not pose an immediate threat to the Saudi state. While disruptive, and frightening to the 8.8m expatriates (among them 100,000 westerners) who form the backbone of the kingdom's workforce, the attacks have so far failed to shake either its economy or its political structure.

True, oil prices rose to a 21-year high after the Khobar attack (see article), but the Saudi stock exchange, a better measure of confidence in the kingdom's future, actually posted gains, continuing a trend that has pushed share values up 125% in the past two years. Although *jihadis* toasted the oil shock as a sign of their success, the high price actually strengthens the Saudi regime, which pockets a windfall.

The longer-term effects of Saudi unrest are more worrying, both for the kingdom and for the rest of the world

The longer-term effects of Saudi unrest are more worrying, both for the kingdom and for the rest of the world. Direct attacks on oil installations, which are heavily defended, are considered unlikely. Moreover, by damaging the country's livelihood, the *jihadis* would lose such public support as remains. Hitting soft targets, such as expatriates, cannot halt oil production. Already 85% of the staff of Saudi Aramco, the giant state oil monopoly, are indigenous. Yet over time, as the violence makes foreign experts costlier and harder to recruit, the kingdom could suffer.

Most analysts reckon it will take time and more bloodshed to deal with terror. “This is just the sunrise,” says a human-rights activist in Dammam. “We're in for a rough five years,” says an American executive in Riyadh. “I foresee an Algeria-type situation”, he said, alluding to a civil war in the 1990s which left 100,000-odd dead.

Since September 11th 2001, the Saudi authorities have made some headway against terrorism by making their long borders less porous, by controlling suspicious financial transactions, by protecting obvious targets, by purging school curricula of lessons inciting sectarian hatred, and by using the media to inflame opinion against the *jihadis*. But their struggle ahead is long.

“The government can't fight terrorism by itself,” says a Saudi businessman in Khobar. “It needs the people with it, and to get them it must give them a say in the political process. Right now, many people say this [terrorism] is bad, this is awful, but it isn't my business. It's between the government and the terrorists.”

The need for reform is accepted inside the ruling establishment. Some changes have been made, and others promised, including—for the first time—direct elections in October for half the seats on municipal councils. Next week, the third round of a “national dialogue”, a series of conferences gathering a representative range of professionals, is to discuss women's rights.

But so far most of this is talk, not action. “I don't care if they hold 30 conferences,” says the human-rights advocate. “They haven't implemented a single recommendation from the last ones.” Like other Saudi observers, he thinks that reform has not only stalled but gone into reverse. Soon after the kingdom authorised a semi-official human-rights monitoring body in March, the police arrested 13 democracy advocates. Three are still in prison, without charge; the new human-rights body has done nothing to secure their release.

What liberal Saudis fear most from *jihadi* violence is not physical injury or even the prospect that the kingdom's already stifling religious conservatism might increase. It is that the ageing princes who run the place will take fright, and bolt the doors against change of any kind.

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Al-Qaeda

Amorphous but alive

Jun 3rd 2004 | CAIRO
From The Economist print edition

Al-Qaeda is still dangerous and is adept at changing its shape

Get article background

THE world's security specialists are almost unanimously gloomy. They say it is no longer a question of if but when al-Qaeda will hit a western city again. Many expect it to explode a “dirty bomb”—a device that scatters radioactive material. It is widely agreed that the war in Iraq, compounded by the recent scandal over the torture of prisoners, is likely to expand al-Qaeda's pool of recruits and make it harder for America to win its war on terror.

Since September 11th 2001, attacks by terrorists linked to al-Qaeda have killed more than 1,000 people in more than a dozen countries. Jason Burke, an expert on the group, reckons that Mr bin Laden is “closer to achieving his goals than the West is to deterring him”. The International Institute for Strategic Studies in London says that the only way to “depress recruitment and motivation” for al-Qaeda would be to find “currently elusive” solutions to messes such as Iraq and Palestine. It guesses that 18,000-odd people, who were trained in terrorist tactics by the Taliban regime in Afghanistan but escaped after the American attack two-and-a-half years ago, may be floating around the world, ready to help al-Qaeda.

America's State Department paints a rosier picture. In its latest annual review of global terrorism, it says there were fewer terrorist incidents in 2003 than in any year since 1969. Tougher and better co-ordinated police work has taken more than 3,400 suspected al-Qaeda people out of action, including—it says—some two-thirds of the organisation's leaders. In the past two months, Turkey, Italy and Jordan have foiled apparently large attacks. Terrorism has been on the wane even in hot spots of *jihadi* activity, such as Algeria, Yemen, Central Asia, Israel, Kashmir and the Philippines, where a suspected al-Qaeda agent was arrested this week. So why the worry?

Massaged figures?

For one thing, a precipitous drop in terrorism registered in Latin America, along with a decision to exclude the large toll of casualties from *jihadi* bombings in Iraq, lowers the State Department's figures. And terrorism experts are revising their view of the source of the danger. They no longer see al-Qaeda, the global *jihad*'s “base” organisation founded by Mr bin Laden, as a sort of “terrorism central” but more like an ideological franchise. George Tenet, who heads the CIA, testified recently that militant *jihadi* groups operate in no fewer than 68 countries (up from 40 in 2001). In Iraq alone dozens of separate groups may pursue what they see as *jihad*.

Deadly attacks in such disparate places as Turkey, Morocco, Spain, Saudi Arabia and Indonesia have all been traced to local cells. Some of the perpetrators were trained in Afghanistan and possibly received instruction at some point from Mr bin Laden's men, but their recruitment, funding, supply and planning do not appear to have been centrally co-ordinated. Several prominent terrorist groups appear to be linked to al-Qaeda by little more than inspiration and the internet. Examples include Tawhid (the Unity of God), a group said to be run by a Jordanian, Abu Musab al-Zarqawi, which has been most active in Iraq and Jordan; and Ansar al-Islam, with cells in Italy, Turkey and Iraq.

Such al-Qaeda spin-offs are clearly harder to nail than a single large organisation. Yet al-Qaeda itself is still active. It has simply been forced to change its structure and tactics. For reasons of logistics and security, Mr bin Laden now appears to act mainly as a figurehead, ceding operational control to his chief lieutenant, Ayman al-Zawahiri, an Egyptian.

Some terrorism experts believe that Mr Zawahiri has adopted a two-pronged offensive. Some surviving networks in western countries may be lying low, planning for large strikes to cause maximum casualties and political impact, on the model of the Madrid bombings. In the meantime, looser affiliates in Muslim countries have been encouraged to switch from targeting solely western interests to attacking any targets as they arise, with the aim of destabilising local regimes. Diaa Rashwan, an Egyptian expert on Islamist militancy, notes that recent messages from al-Qaeda leaders emphasise the “near enemy”—the western-allied governments of such countries as Pakistan and Saudi Arabia—rather than the “far enemy”, the infidel powers such as America or Britain.

Whatever their links to al-Qaeda, the *jihadi* groups draw their strength from a common pool of self-righteous anger at what they see as the humiliation of Muslims at the hands of the West. Judging from the “chatter” on militant Islamist websites, the passion that fuels Islamist terror is growing. The main reason for this is the perception, widespread in the Muslim world, that America's wars in Afghanistan and Iraq, along with its support for Israel, are tantamount to a war on Islam.

The al-Qaeda franchise continues to exploit such feelings. In a recent taped message, Mr bin Laden said it was a good idea to maintain a state of conflict, to mobilise Muslim anger. Ghassan Charbel, an analyst for an Arabic daily, *Al Hayat*, notes that al-Qaeda's offer of bounties for killing UN officials in Iraq is aimed at stopping Iraq's problems from being solved. A communiqué from a Saudi *jihadi* group expresses the hope that George Bush will be re-elected because his “haste to use force, his lack of wisdom and religious fanaticism have roused the Islamic nation”.

The greatest damage to the *jihadi*s' moral standing has been wrought not by the global offensive but by their own brutality. It is significant, for instance, that in Jordan, Mr Zarqawi's tribe has publicly ostracised him. In Yemen, a preaching campaign by respected Muslim clerics has prompted dozens of young *jihadi*s to repent. Something similar happened in Egypt and Algeria, countries that endured a wave of radical Islamist violence in the 1990s. Public disgust, sensible preaching and heavy-handed policing eventually drained the pool of *jihadi* recruits. But it took a long time, and cost many lives.

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Iraq's new government

Pulling a fast one

Jun 3rd 2004 | BAGHDAD
From The Economist print edition

Key people in the interim

President	Ghazi Yawar	Sunni leader; former exile, an engineer by training
Vice-president	Ibrahim Jaafari	Popular Shia leader; head of the Dawa party
Vice-president	Rowsch Shaways	Former prime minister of half of Kurdish enclave
Prime minister	Ayad Allawi	Tough ex-Baathist Shia; former exile with links to the CIA
Defence minister	Hazem Shalan Khuzaei	Ex-Baathist Shia; former exile
Foreign minister	Hoshyar Zebari	Kurd who keeps job he already has
Finance minister	Adil Abdel-Mahdi	Aristocratic former exile
Oil minister	Thamir Ghadbhan	Wry British-educated technocrat

Source: *The Economist*

The old council dominates the new set-up, but it's not all that bad

SHORTLY before the ceremony announcing the creation of Iraq's new interim government on June 1st, yet another car bomb went off in Baghdad, killing four people. The country's new leaders-elect will have few illusions about the scale of the task they face as they steer Iraq towards elections and full sovereignty next year.

In Ayad Allawi, the prime minister, they have found a man who is not popular but is probably as capable as any of running the troubled country. A former neurosurgeon and CIA agent, he lacks the subtleties of other politicians, but in Iraq's current climate a bruising personality may be what is needed. His plan to re-Baathify parts of Iraq's army is likely to prove controversial. But it is the only way to create a credible security force by the end of 2005, the tentative date set for the withdrawal of coalition forces.

Balancing religious and ethnic groups was the first principle in deciding the 36-member team. The largely ceremonial job of president has gone, after some controversy, to Ghazi Yawar, a Sunni from the powerful Shammar tribe. The two vice-presidencies go to Ibrahim Jaafari, a Shia who heads the religious Dawa party, and to Rowsch Shaways, a former prime minister of the Kurdish Democratic Party's enclave in northern Iraq. The new prime minister is also a Shia, though a secular one. This may prove contentious in the Sunni heartlands around Baghdad, but was inevitable, given Iraq's Shia majority.

Lakhdar Brahimi, the UN's envoy, came to Iraq last month intending to create a government of technocrats, reflecting the desire of Iraq's Shia clergy that the interim administration should be apolitical. He had in mind that Hussein Shahristani, a nuclear scientist jailed by Saddam Hussein for ten years, should be prime minister. The American-appointed Governing Council (GC) pulled a fast one on him by publicly announcing that Mr Allawi was its candidate for the premiership. After that, neither Mr Brahimi or the Americans had much choice but to endorse him.

The debate over Iraq's president made public the three-way tussle between Mr Brahimi, the GC and Paul Bremer, Iraq's American proconsul. The latter two favoured Adnan Pachachi, a veteran Sunni politician who was seen as capable of weathering the vagaries of Iraqi opinions, as well as being a generally respected figure. The GC's choice, Mr Yawar, is a bit of a political makeweight. A civil engineer who fled from Saddam's Iraq to Saudi Arabia, he had displeased the Americans by showing a propensity to criticise them. In the end, Mr Yawar emerged the winner after Mr Pachachi turned down the job—though it would anyhow have been hard for Mr Brahimi and Mr Bremer to go against the GC's choice.

The new government is dominated by GC members in key political posts. Most are former exiles, who are held in fairly low regard by many Iraqis who tend to see them as American stooges. Ironically, the row

over the presidency may have done quite a lot to increase the new government's political standing, especially as the GC decided to disband itself immediately.

With a freer hand in the allocation of less prominent ministries, Mr Brahimi was able to select an array of technocrats, including six women. The result is a not unhappy blend. Mr Jaafari, one of the vice-presidents, is one of the GC's few members who is genuinely popular. The new education minister, Sami Mudahfar, was the elected president of Baghdad university until he was kicked out by an Islamist party. He is tipped to do a good job.

It is hoped that the formation of a 100-strong national council, a sort of quasi-parliament, will provide a forum for some of those previously excluded from government. The council will be chosen at a gathering of at least 1,000 Iraqis in a “big tent” after what is described as “a genuine national dialogue” in July. It will be able to veto, by a two-thirds majority vote, laws approved by the interim government.

Already attention is beginning to shift from Baghdad to New York where the United States and Britain have offered a new draft resolution on Iraq to the UN Security Council. This allows the American-dominated multinational force to retain the authority to take “all necessary measures” for security. Its mandate would end on “completion of the political process” when an Iraqi government is elected under a new constitution. Colin Powell, America's secretary of state, confirmed this week that the interim government would have no veto over actions by coalition troops.

The draft gives the government control over its natural resources (though “temporarily” maintaining international control over its oil-revenue fund) and over Iraq's own security forces. France, echoed by Russia and China, has already expressed unease at Iraq's planned lack of sovereignty, notably in military matters.

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Gaza after Israel withdraws

A tantalising letter from prison

Jun 3rd 2004 | GAZA AND RAMALLAH
From The Economist print edition

Marwan Barghouti, Arafat's possible heir, speaks out on Gaza from prison

IF ISRAEL were to withdraw from Gaza, what would the Palestinians do? The question is hypothetical. Ariel Sharon, Israel's prime minister, is still struggling to get his government and Likud party to endorse a watered-down version of his plan. As it now stands, his plan envisages a four-stage withdrawal spread over 18 months. Mr Sharon says he intends to uproot all 21 Jewish settlements in Gaza, keeping control only of the border between Gaza and Egypt, and to remove four settlements from the northern bit of the West Bank.

Likud's ultra-nationalists say that a retreat would grant a triumph to the Islamist fighters of Hamas no less than that scored by Hizbullah when Israel quit Lebanon unilaterally in May 2000. Are they right? Yes, say most Palestinians, who tell pollsters that Mr Sharon's plan, particularly the evacuation of settlements, is a victory for the fighters. “Most Israeli senior military strategists realise that, post-withdrawal, de facto political control in Gaza will be in the hands of Hamas,” says Khalil Shikaki, whose Policy and Research Centre charts opinion in the territories.

The fear of a Hamas takeover has brought a rare meeting of Egyptian and Israeli minds. Hosni Mubarak, Egypt's president, has said that, if the Israelis do leave, his army would try to seal the porous border with Gaza (the “gateway” for most of the Palestinians' arms, say the Israelis) and send a hundred or so “security experts” to rebuild the Palestinian Authority's police. Mr Mubarak also wants Yasser Arafat, the Palestinians' leader, to give up control of the police forces and put them into the hands of Muhammad Dahlan, his former security minister. No, says Mr Arafat. “I am keeping another assignment for him.”

In the 1990s, Mr Dahlan was the scourge of Hamas, a reputation that makes him, in the eyes of Israelis, Egyptians and Americans, the preferred Palestinian strongman in a post-withdrawal Gaza. But these days, he deals more softly with the Islamists. A movement that is now more popular than Mr Arafat's Fatah has to be addressed, not squashed.

Mr Dahlan claims to have an agreement with all the Palestinian factions to hold fire once Israel starts to withdraw. Hamas men do not deny that a new Palestinian ceasefire is in the offing but dismiss the idea that this is due to Mr Dahlan. That honour belongs to another Palestinian leader—one who, on June 6th, Israel is expected to sentence to life imprisonment.

Last month a Tel Aviv court found Marwan Barghouti, Fatah's West Bank general secretary, guilty of the murder of four Israelis and a Greek monk. Mr Barghouti is the Palestinians' most popular politician after Mr Arafat. To Fatah's “young guard”, he is also the obvious heir to Mr Arafat.

For most of the 1990s, Mr Barghouti extolled the Oslo peace accords, held talks with all shades of Israeli opinion, and condemned attacks on civilians inside Israel. But disillusioned, he threw his lot behind the “armed *intifada*”, claiming it was “the Palestinians' national war of independence” that would end with freedom from Israeli rule. He was arrested in April 2002 when Israel reconquered the West Bank.

Two years behind bars have not dulled his vision but have caused him to revise the means to the end. Last year, from his cell, he helped to broker a Palestinian ceasefire. He believed that the “reformist” Palestinian government of Mahmoud Abbas might carry enough clout with America to get Israeli tanks out of West Bank cities, political prisoners freed and new Palestinian elections held. For Mr Barghouti that last goal is essential, to clear out the “old guard” of Palestinian leaders. But Mr Abbas and his government came to nothing, the ceasefire went up in flames, and the old guard is still in place.

Mr Barghouti now backs Mr Sharon's Gaza plan, calling it “the most important achievement of the *intifada*

after ten years of Oslo". In April, he called on the Palestinian factions to stop fighting in Gaza—once Israel has withdrawn from the entire strip (including the border with Egypt), Palestinian prisoners from Gaza are freed, and a date is set for Palestinian elections.

Egypt is willing to be host to another round of ceasefire talks. If the terms are Mr Barghouti's, Hamas is likely to agree to them. Mr Sharon, however, is almost certain to refuse the bargain. Yet Mr Barghouti's "letter from prison" exposes the Israeli leader's dilemma. If the withdrawal is to go smoothly, there must be a strong Palestinian government that can fulfil its promises. But Mr Sharon does not want a unified Palestinian voice that would make those promises conditional on concessions that he is still loth to make.

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The Democratic Republic of Congo

The fire rekindles

Jun 3rd 2004 | BUKAVU
From The Economist print edition

Despite a peace pact, rebels seize a city

EPA

Bukavu changes hands, again

Get article background

THE country is supposed to be at peace, but increasingly looks as if it is not. This week, rebels surged into Bukavu, one of the most important cities in eastern Congo, which nestles on the border with Rwanda. On June 2nd, they captured it, driving the government's shabby troops into the wooded hills nearby.

The rebels' leader, Brigadier-General Laurent Nkunda, a Congolese Tutsi, is now installed in Bukavu's governor's mansion, an elegant villa overlooking lovely Lake Kivu. He is vague on how long he plans to remain there; he told *The Economist* only that he intends to defend the local Tutsi population against "genocide". His soldiers are meanwhile marauding through Bukavu's more modest residences, helping themselves to loot. Columns paraded with bedrolls and sacks of stolen rice on their heads. A local showed your correspondent the scar where a rebel had bayonetted him through a window. UN peacekeepers stood by, to the fury of most Congolese. Mobs attacked UN compounds in at least three other cities.

There had been warnings. On May 26th, several hundred former rebel soldiers—who were supposed, under the terms of a peace deal last year, to have joined Congo's national army—mutinied in Bukavu. The street battle that ensued left dozens of soldiers dead. Since the rebels were largely of the Tutsi ethnic group, loyalist troops took revenge by raping and murdering Tutsi civilians. South African UN peacekeepers briefly restored calm, but the mayhem prompted Mr Nkunda to raise a bigger force and invade Bukavu.

The repercussions could be terrible. Congo has suffered two horrific wars in the past decade, both of them sparked by rebellions in the east, both of which were engineered by Rwanda, the country's pint-sized neighbour. The second of these conflicts, which began in 1998, drew the armies of eight African countries into Congo, and claimed perhaps 3m lives before it ended last year. The renegade soldiers now in control of Bukavu represented Rwanda in that war, which is causing many Congolese to fear that a third rebellion is upon them.

More likely, the battle for Bukavu indicates that Congo's war never ended. Peace was declared in April last year. Three months later, President Joseph Kabila got leaders of several former rebel groups and political parties to join him in a government of national unity. Most of Congo's rebel armies have since melted away. But Mr Kabila's main rebel enemy, the Rwandan-backed Rally for Congolese Democracy (RCD), is proving more obdurate.

Its former leader, Azarias Ruberwa, now serves as one of Mr Kabila's four vice-presidents, but several of his commanders chose to stay in the bush, where they still control thousands of armed men. They say their lives would be at risk in Kinshasa, Congo's capital, as indeed they could be. Mr Nkunda, for example, stands accused of overseeing a massacre of civilians in 2002, in reprisal for an anti-Rwandan demonstration in the town of Kisangani.

Congo's national army is too feeble to crush the rebels. It survived the war thanks to Mr Kabila's foreign allies, including the fugitive troops of the former Rwandan regime that perpetrated the 1994 genocide of Tutsis. It has since been swollen by thousands of bootless former resistance fighters, including traditional Mai-Mai militiamen, who fought Rwanda's occupation of eastern Congo with a combination of woodsman's lore, magic potions and the odd firearm sent from Kinshasa. But if these recruits have hardly strengthened his army, Mr Kabila could probably still bring the dissident former RCD commanders to heel, if only his government were less dysfunctional.

Greed and incompetence are as common to Congo's 62 ministries as beautiful young secretaries. Mr Kabila and Mr Ruberwa are increasingly suspicious of each other. Under the terms of last year's peace deal, Mr Ruberwa was given control of the defence ministry and the army. But Mr Kabila is trying to reassert himself using the *Maison Militaire*, an arm of the presidency devoted to his security. Through it, Mr Kabila has raised a praetorian guard of 7,000 of the best-trained and -equipped soldiers in Congo.

Rwandaful news

In response, Mr Ruberwa has turned to his old allies: Rwanda and the rogue commanders in eastern Congo. One of these, Colonel Jules Mutebutsi, who led last week's mutiny in Bukavu, was recently implicated in an attempt to murder the pro-Kabila general who was sent to command the army there. When UN peacekeepers recently claimed to have spotted Rwandan troops inside Congo, Mr Ruberwa called a press conference to deny it.

Whether Congo returns to all-out war probably depends on Rwanda. On Congolese television, Mr Kabila accused Rwanda of being behind the capture of Bukavu, and vowed to “mobilise our resources and men and finances” to retake the city. Rwandan officials denied any knowledge of Mr Nkunda's rebellion. But the rebels' march on Bukavu was suspiciously well-coordinated with Mr Mutebutsi's mutiny. And Mr Nkunda's men look suspiciously well-supplied: their uniforms are so new that the creases are still visible.

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Franco-German relations

Je t'aime, ich auch nicht

Jun 3rd 2004 | BERLIN AND CAEN
From The Economist print edition

AFP

Behind the smiles for the cameras, the Franco-German relationship is more fragile than meets the eye

Get article background

WHEN Germany's Helmut Kohl and France's François Mitterrand held hands at the battlefields of Verdun 20 years ago, it was a high point of Franco-German reconciliation. When their successors, Chancellor Gerhard Schröder and President Jacques Chirac, gather in Normandy on June 6th to commemorate the 60th anniversary of D-Day, their meeting will be equally moving and symbolic. It will be the first time a German leader has participated in D-Day celebrations, and will be followed by a Franco-German "reconciliation ceremony" at the Caen Memorial Museum. Yet, this moment could in fact mark the beginning of a more difficult period between France and Germany.

The remarkable friendship spanning over 50 years between the two countries has had its ups and downs. Indeed, the countries' current leaders got off to a bad start. When the centre-left Mr Schröder became chancellor in 1998, he spent more time courting Britain's Tony Blair. President Chirac, expecting the German conservatives to oust Mr Schröder at the polls, concentrated his efforts on them. The result was stalemate, both between the two countries and within the European Union.

Since then, however, Messrs Chirac and Schröder have overcome their lack of natural affection for each other to make the relationship work. Early opposition to the Iraq war united the pair. They agreed to a surprise deal on farm subsidies and on the EU constitution. By January 2003, on the 40th anniversary of the Elysée treaty that cemented the relationship, the two leaders inched closer still by launching a new effort to co-ordinate domestic and European policy. Mr Schröder even let Mr Chirac stand in for him at one European summit. The couple backed each other as they squelched the EU's stability pact by repeatedly ignoring its budget-deficit rules. There was even talk of a veritable "Bund franco-allemand" (Franco-German union), which would include a joint foreign policy and a German deputy to the French representative at the UN Security Council.

Don't stand so close to me

Today, such ideas sound far-fetched. Instead, there is relief in Germany—certainly among those who feared that the country had wedded itself too closely to France over Iraq—that last year's close co-operation has not gelled into the beginnings of a “counterweight” to America. Germany has swung back towards its traditional position of equidistance between France and America. It is now calling for its own seat at the UN Security Council, instead of trying to piggyback on the French one. More importantly, Mr Schröder and his foreign minister, Joschka Fischer, have managed to restore pretty normal relations with George Bush—without having to change their position on the war in Iraq.

There is also much less talk in Germany these days—at least outside the chancellery—about a “core Europe”. Mr Fischer, long a proponent of the idea of an “avant-garde” or “pioneer group” of countries to promote EU integration, now argues that this would leave Europe too weak to deal with its big strategic challenges, which he identifies as globalisation and terrorism. In the enlarged EU of 25, many in Germany consider close Franco-German relations to be necessary, but not sufficient to drive the project forward. Mr Fischer, in particular, seems keen to involve the British.

This shift contrasts starkly with France. Behind the handshakes between Presidents Bush and Chirac, who meet for dinner *à deux* on June 5th in Paris, remains a profound Franco-American distrust. Any French sense of vindication over the war in Iraq has been tempered by growing fears about the security risk and the intensified anti-western sentiment that it has produced. Though the French say they will not veto the new UN resolution over Iraq, they are pushing the Americans hard to hand over full sovereign power. Michel Barnier, the new foreign minister, said bluntly last week that France “will not send soldiers, now or later.”

Nor have the French abandoned their ambitions for a “multipolar” world, a notion that infuriates the Americans since it supposes that a fortified Europe would counter-balance American supremacy. Hence President Chirac's enthusiasm for EU pioneering groups, in particular on defence. In this respect, the French reluctantly recognise the need to include Britain. Yet this poses difficulties, since the French also distrust Britain's pro-American reflex. The French are probably more determined than the Germans now to keep the Franco-German axis strong—chiefly because they have no alternative.

Behind this quest for new alliances lies the basic fact that the enlarged EU has sharply altered the political arithmetic. If this latest enlargement has already rocked the relationship, further waves could do so even more. Disagreement is already looming over Turkey's application. The German government is in favour. So is President Chirac—but against the will of most French people and his own party. France's position could harden against Turkish entry. In which case, securing a Franco-German agreement will be tricky.

A weaker liaison

Three other sources of fragility in the Franco-German relationship stand out. The first is a resurgent conflict between national and joint interests. When Mr Schröder and Mr Chirac complemented the Elysée treaty with a “joint declaration” in January 2003, they wanted to boost joint decision-making. But instead of opting for a set-up that would allow for early policy co-ordination, such as a single Franco-German body, each government created its own secretary-general in charge, for instance, of working out a common EU policy or preparing regular joint cabinet meetings.

So far, the output has been meagre. Their latest grand idea—to create Franco-German industrial champions—has already been mocked as flag-waving interventionism. France first upset Germany by helping Sanofi-Synthélabo, a French pharmaceuticals group, to take over Aventis, its Franco-German rival. Now, there is even more anger in Germany over French attempts to stop Siemens, the German industrial giant, buying parts of Alstom, the near-bankrupt French engineering group. So sensitive is the matter that Jean-Pierre Raffarin, the French prime minister, and Nicolas Sarkozy, his finance minister, postponed a meeting on industrial policy this week with their German counterparts.

A second source of weakness is generational change. Young Germans flock to Paris and love to watch French films, but the French seldom return the compliment. As one French ministerial adviser puts it: “The French holiday in Spain or Italy and send their children to London or the United States. Nobody goes to Germany.” The share of French schoolchildren studying German as a first language has dropped from 14% to just 9% since 1970, and as a second language from 36% to 14%.

A final element of fragility is the prospect of different political leadership. The most likely conservative candidate to rival Mr Schröder at the 2006 federal elections is Angela Merkel, the opposition leader. An

apprentice of Mr Kohl, for whom Franco-German reconciliation was a historic mission, Mrs Merkel is a strong Atlanticist. On Iraq, she backed America, and visited President Bush to drive home the point. As a politician from eastern Germany, and fluent in Russian, she is also likely to be more sympathetic to the EU's new members. Given her belief in liberal economics, her European policy on industrial issues is likely to look as British as Mr Schröder's now looks French.

French elections are still three years off, and, as long as President Chirac remains in office, efforts to prop up the Franco-German axis will be firm. Yet the strongest candidate on the right to replace him is Mr Sarkozy, a pragmatic 49-year-old who, says one aide, considers the primacy of the Franco-German relationship to be outdated. He is instead keen on a grouping of the big five, adding Britain, Italy and Spain. “The Europe of 25,” he said recently, “will force us to rethink what the central core should be”.

For sure, France and Germany will continue to hold much in common. They are both big EU countries, for whom the importance of Europe as a political project is shared in a way that it is not in, say, Britain. Each still needs the other to strengthen and preserve its foreign influence. And if there is no deal on an EU constitution, France and Germany will doubtless fall back on each other to revive closer bilateral integration. But the historical post-war zeal combined with sheer hard work that have made the Franco-German couple endure so far can no longer be taken for granted.

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European elections

Martin's travels

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How parliament's expenses abuse is helping one MEP's campaign

AP

Blowing the whistle

AS A budding journalist, Hans-Peter Martin once worked undercover in the kitchen of a posh hotel in the Austrian Alps to document the poor treatment of the staff. Years later, the 46-year-old member of the European Parliament still uses the same tricks. Voted in as a Social Democrat in 1999, the former reporter for *Der Spiegel* used a concealed minicam to film other MEPs as they made use of, and candidly talked about, the generous perks and expenses paid by the parliament. By going public with his grainy footage, Mr Martin became the most despised man in Strasbourg. But he has put the abuse of perks and expenses back on the agenda yet again, as disillusioned voters across Europe prepare to go to the polls next week.

The venom against Mr Martin was probably strongest of all in his own Socialist group, which expelled him earlier this year because he had refused to apologise to some female colleagues for allegedly assaulting them as they tried to sign in for a parliamentary session that had been cancelled. Not to be outdone, Mr Martin claimed that a British Labour MEP, Gordon Adam, had thrown him to the ground. Mr Adam accused the Austrian of faking the attack to create an incriminating photo.

Mr Martin claims that the only way to document the shenanigans at the parliament was through surreptitious filming. Even his foes admit that perks in the European Parliament, such as the reimbursement of every flight at the highest available economy fare regardless of the actual cost, are unjustified and should be scrapped. Mr Martin's main target has been the common practice of signing in on a Friday morning for a full day's work, collecting a daily stipend of €262 ($320) and then taking an early flight home.

Being a pest to his colleagues has, at least, made Mr Martin the darling of the tabloid press. *Bild*, the biggest-selling German daily, has put his photos on its front page. The British tabloids also featured them prominently. *Bild*'s Austrian counterpart, *Kronen-Zeitung*, helped Mr Martin to launch his candidacy to re-enter the parliament as an independent. Most voters support his agenda of transparency and reform. Thanks to good press coverage, Mr Martin has a chance of getting enough votes to win an Austrian seat.

Yet after putting all his own travel expenses on the table, Mr Martin has some explaining of his own to do. How did a plane ticket for his son end up on the list of reimbursements, and why did he claim an allowance for a car ride across the Brenner Pass, which leads to Italy, not to Brussels or Strasbourg? Moreover, Mr Martin's appeal tends to fizzle on the campaign trail. He speaks with a squeaky voice and is uncomfortable shaking hands and making small talk. Perhaps voters will find him as annoying as his erstwhile colleagues did. But, even with his minicam gone, the pressure for reform of the parliament's expenses system will continue.

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Ireland

Citizenship tourists

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Harder to be Irish

FOUR years ago, a Chinese national, then six months pregnant, travelled from her home in Wales to Northern Ireland to give birth to her second child, Catherine. Man Levette Chen moved to Belfast on legal, not medical, advice. She was facing deportation from Britain and knew that a second child would violate China's strict “one child” policy. Her British lawyers had advised her that a child born in Northern Ireland would automatically acquire Irish—and therefore European Union—citizenship. With her new baby an Irish national, Mrs Chen could then hope to go back and live in Britain.

The British Home Office, however, disagreed. It denied Mrs Chen and her daughter residency rights. On May 18th, the European Court of Justice overturned that decision. In a preliminary opinion, the court's advocate general found that the British government's refusal was a breach of EU law. If the full court later upholds the initial ruling, which it generally does, the Chens will be able to live in Britain—or in most other EU countries—provided they are not a financial burden on the state.

The interim European court's judgment was most opportune for the Irish government, which had just begun a campaign to change the country's generous citizenship laws. On June 11th, Irish voters will decide in a constitutional referendum whether to back the government's proposals. These are meant to close a legal loophole exemplified by the Chen case, which showed how Ireland's citizenship law can be abused to get around immigration controls in the EU's other 24 countries.

Since 1999, anyone born on the island of Ireland, north or south, has been allowed to claim Irish citizenship. That includes those born to non-European parents and who, like Mrs Chen, have no links with the country nor any intention of living there. “Citizenship tourists” is how the justice minister, Michael McDowell, has described those who give birth in Ireland to secure citizenship for their children and then seek residency rights in EU states thanks to having an Irish child. Ireland is the only EU state where citizenship can be acquired from birth, and by birth alone.

For a century and a half, Ireland was a nation of emigrants. More recently, rising prosperity and liberal citizenship laws have enhanced its appeal to immigrants. Still, they remain a tiny proportion of the population. According to the latest census, a mere 2.3% are non-EU nationals.

Yet in 2003, one in four of the 23,000 or so children born in Dublin's three main maternity hospitals had a non-Irish mother; non-EU nationals accounted for 82% of all foreign births. Last year, 58% of the 3,270 female asylum-seekers aged over 16 were pregnant when they applied. Dr Declan Keane, head of the National Maternity Hospital, believes that up to half the non-EU nationals who give birth there are trying to take advantage of Ireland's citizenship laws. The heads of all three Dublin hospitals agree that the rising birth rate among foreigners now warrants a fourth maternity facility in the fair city.

So the government is now proposing that, for children born in Ireland of foreign parents, citizenship at birth will only be granted if one of the parents has been legally resident in Ireland for at least three of the four years before the birth. The public still admits to some confusion over the citizenship issue, with 22% of voters still undecided. But according to a poll for the *Irish Times* by TNS-MRBI, a majority is likely to support the government's proposal in next week's referendum.

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Montenegro

Another killing

Jun 3rd 2004
From The Economist print edition

The death of a journalist shakes the state

Get article background

Reuters

Mourning for Dusko

“MILO, murderer,” yelled protesters accusing their pro-independence prime minister, Milo Djukanovic, as they marched through Podgorica, the capital of Montenegro, on May 29th. Two days earlier, Dusko Jovanovic, the editor of *Dan*—a paper which serves as a mouthpiece for the republic's main opposition party and supports a continued union with Serbia—was gunned down.

Mr Jovanovic joins a long list of men assassinated in both Serbia and Montenegro, in circumstances which may never be cleared up. Prominent victims in the last few years include Serbia's prime minister, Zoran Djindjic, a Serbian newspaper editor, Slavko Curuvija, two top Montenegrin security officials, a Yugoslav defence minister and a gangster-cum-paramilitary-leader.

Ever since the destruction of the old Yugoslavia, the borders of politics, business, the security services and the underworld have blurred in both Montenegro and Serbia. *Dan* made waves in Montenegro, not for its views on the future of the republic's relationship with Serbia, but because of its dogged campaign to expose alleged corruption around the leadership of Mr Djukanovic. In recent years, the newspaper has maintained that Montenegro's prime minister and his allies are linked to sex trafficking, cigarette smuggling and other mafia activities. Mr Djukanovic's supporters, however, retort that *Dan* is more committed to slanderous mud-slinging than to the truth. Dozens of libel cases against the paper have been launched over the last few years.

Mr Djukanovic and his government have been quick to condemn the murder. Forensic experts have been called in from abroad and a reward of €1m ($1.2m) has been posted in a bid to find the killers. But the damage has been done. Mr Djukanovic's enemies are convinced that the killing had something to do with men close to power. Nebojsa Medojevic, a popular economist and harsh critic of the government, is predicting that the murder may mean the beginning of the end for Mr Djukanovic and his government. Abroad, the republic's image has also been tarnished. This may undermine Mr Djukanovic's wish to steer Montenegro to a referendum on independence by 2006.

But Mr Djukanovic may just have an ace up his sleeve. Ramco Energy, a Scottish oil company, has been prospecting off the coast of Montenegro. According to Steven Bertram, Ramco's finance director, Montenegro may be sitting on “billions of barrels of oil and trillions of cubic feet of gas”. He hopes to get a rig out later this year. If his predictions are borne out, the prospects for Mr Djukanovic, Montenegro and its relations with Serbia will all look very different.

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Charlemagne

The longest day, revisited

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How different views of D-Day affect transatlantic ties

THE 60th anniversary of D-Day on June 6th will be a very long day. It will begin with a joint Franco-American ceremony on Utah beach and continue with a lunch for assembled world leaders in Caen, the Normandy town nearest the D-Day beaches. But perhaps the most significant ceremony will be saved for the early evening, when Jacques Chirac and Gerhard Schröder—the leaders of France and Germany—meet at the Caen Memorial. Most attention will naturally focus on the very presence of a German leader at the commemorations of the Normandy landings—an honour that was withheld from all previous German chancellors—and thus on a moment that Mr Schröder says means that "Germany's long journey to the West has now been completed."

But the place the two leaders have chosen to meet also says a lot about today's politics—and the split that has opened up in the western alliance over Iraq. For most Americans and Britons, the narrative of D-Day is blessedly uncomplicated. It is a story of heroism and sacrifice, and of good triumphing over evil; one that has been re-told with increasing frequency with the passing of the years in films like "The Longest Day" and "Saving Private Ryan". For the best-selling American historian, Stephen Ambrose, D-Day was above all the story of heroic young Allied soldiers: "None of them wanted to be part of another war [...] But when the test came, when freedom had to be fought for or abandoned, they fought."

The Caen Memorial, the largest museum commemorating the D-Day landings, is a few miles from the Normandy beaches but a world away from Mr Ambrose's celebratory style. It calls itself a "museum for peace", and relatively little of its exhibition space is actually devoted to the Normandy landings. Instead crowds of school-children are led through galleries dedicated to the tragedies of the 20th century and on to a series of rooms devoted to peace studies. The rooms that are concerned with the second world war are decorated with sobering messages like the dictum of Fénelon, a 17th-century writer, that "All war is always civil war, for it is always man against man." The peace rooms are full of useful pedagogic suggestions such as "The European Parliament can be a model for a future global parliament."

If the Anglo-American view of D-Day remains predominantly about the triumph of democracy over fascism, the view presented at the Caen Memorial prefers to focus on the evils of all wars and the need for peace and reconciliation. Of course, the two views are not mutually exclusive. The Caen Memorial does not gloss over the evils of Nazism; and no American president would deny the need for post-war peace and reconciliation. But there is a marked difference of emphasis—a difference that is of more than historical interest.

Venus and Mars

The argument over Iraq last year was on one level simply about questions of political judgment. Was Saddam hiding weapons? Would an American-led invasion of Iraq improve matters in the Middle East? But lying behind the arguments were different attitudes to the use of force in world affairs, attitudes which were shaped in large part by very different lessons drawn from the history of the second world war. George Bush has explicitly compared the liberation of France and the liberation of Iraq, reminding American soldiers recently of the heroism of Eisenhower's troops and then adding: "That spirit carried the American soldier across Europe to help liberate a continent. It's the same spirit that carried you across Iraq to set a nation free." In the run-up to the invasion, comparisons between the reconstruction of Iraq today and the reconstruction of post-war Germany and Japan were a staple of American neo-conservative discussion.

The European politicians who opposed the invasion of Iraq also drew upon memories of the second world

war—but to quite different effect. Joschka Fischer, the German foreign minister, lamenting the gap in understanding between his country and the United States, put it down to the fact that “The Americans had no Verdun on their continent. In the United States there is nothing comparable to Auschwitz or Stalingrad.” Mr Chirac has famously said that “War is always an admission of defeat and always the worst of solutions.”

The view that Americans are from Mars and Europeans from Venus—that Americans believe in force, while Europeans aspire to a peaceful utopia—was made famous before the Iraq invasion by Robert Kagan, an American neo-conservative. Like all striking theses, from “the end of history” to the “clash of civilisations”, it has since been subjected to searching critiques, as academics have picked holes in the argument. It has been duly noted that post-war Europe has not always been averse to war; and that the martial United States has often shown a marked aversion to taking casualties. American public opinion is also not as dismissive of international law and the United Nations as the cruder versions of the Kagan thesis would have it.

Yet anybody comparing the Caen Memorial with the works of Stephen Ambrose must conclude that Mr Kagan hit upon something. Opinion polls also clearly support the idea that there is now a very wide gap between the American and the Franco-German view of war. In 2003 a poll for the German Marshall Fund asked respondents whether, under some conditions, war is necessary to obtain justice. Some 55% of Americans said they agreed strongly with that statement. In both France and Germany, however, just 12% were prepared to agree strongly. The two countries may have fought each other to a standstill, following three successive German attacks on France between 1870 and 1945. But 60 years after D-Day, France and Germany seem to have come to an identity of views about war. It is that view that Mr Chirac and Mr Schröder will be endorsing, when they meet at the Caen Memorial on June 6th.

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Ken's record

Your turn again, Livingstone

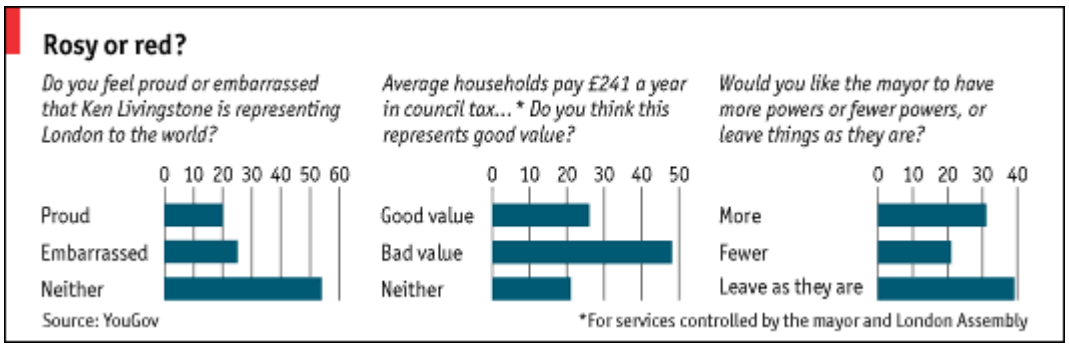
Jun 3rd 2004
From The Economist print edition

An assessment of how Ken Livingstone has played his role as London's mayor: bouquets outnumber brickbats

Get article background

LONDON'S mayor is an office long on folklore but short on clout. It is often confused with the tiny City of London's ceremonial post of Lord Mayor. That's famous from the ancient tale, popularised in pantomime, of Dick Whittington, a poor boy who comes to London with only a cat and ends up draped in the chain of that high office. Yet since the non-pantomime mayoralty of the whole of London was invented in 1999, it has failed to shake off an air of slight unseriousness.

This may help to explain the apparently contradictory attitudes of Londoners towards Ken Livingstone, who looks set to be re-elected on June 10th. A Populus poll in the *Times* puts him at 42%, over ten points ahead of the Conservatives' Steve Norris, with Simon Hughes, the Liberal Democrat contender, trailing at 20%. Yet according to a poll for *The Economist* by YouGov, many Londoners are embarrassed that Mr Livingstone represents their city to the world and think he is poor value for money (see chart). Oddly, however, they not only seem ready to re-elect him; they want to give him more powers. Why?



Mr Livingstone's mixture of egocentric determination and leftish frivolity leaves Londoners cringing crossly at some of his behaviour, yet approving of the way he has used his limited powers. He has successfully built on his image of a cheeky chappy who gets up the nose of the establishment, persuading voters to overlook a political and economic creed that would ordinarily make many of them shudder.

His headstrong approach to getting things done worked best with the congestion charge, a flat-rate road-pricing scheme that charges motorists £5 ($9) for driving into central London during peak hours. Although there have been costs to retailers in central London, the new charge is now popular and it works. The number of journeys spent crawling through the charging zone at under 7mph (10kph) is down by about a third since it began in February 2003. According to a survey for London First, a business organisation, 59% of firms term the charge's impact on London's economy as positive or neutral, compared with 26% who say it has been negative.

The same determined streak has also brought London more buses. The number of passengers travelling by bus rose above 6m a day in April, the highest total since 1968. The largest chunk of those new passengers is from the A and B upper social groups—just the people the mayor needs to get on board to push through more car-disrupting improvements to public transport. The buses have been costly, though; Transport for London, which runs the capital's public transport, has a hole in its budget of around £400m for 2004-05, despite a £2.6 billion subsidy from central government.

The mayor has limited influence over the police: he can appoint people to the board that oversees and sets targets for the Metropolitan Police, but unlike New York's mayor, he cannot boss the police chief around. He has, however, pushed for more policemen: Mr Livingstone's office estimates that of the £241 paid annually for the mayoralty by an average London household, £184 is spent on the police.

The resulting 5,000-odd extra police, and community support officers in bright yellow vests, who wander the city in pairs, does not quite amount to a blitz on crime of the kind managed by New York's former mayor, Rudy Giuliani. Despite the occasional admiring visit across the Atlantic to see how it's done, London's mayor has neither the power nor the resources to carry that out. But thanks to the mayor, police bosses have twigged that more coppers on the streets do keep the public happy.

Mr Livingstone's abrasive and idiosyncratic style has been less productive where he has had to work with others. London's boroughs, which are both more numerous and more powerful than the five that New York's mayor has to deal with, find the mayor particularly difficult to work with. The charge that he is a mayor for the centre, not the suburbs, has stuck.

He also wasted some £4m on an unwinnable court battle with the Treasury, delaying by three years renovation of London's decrepit underground railway, the tube. Mr Livingstone's soft spot for trades unions has been exploited by the RMT rail union, which on June 2nd ungratefully declared a tube strike for polling day.

Happily for Mr Livingstone, Londoners credit him for his successes more than they blame him for his faults. They even look with weary indulgence on his posturing on foreign affairs: his hope that the Saudi royal family would be hanged “from lamp-posts”, was a typically measured and thoughtful remark. While the city's economy booms (no thanks to him), most people will clap and cheer. If that changes, Mr Livingstone may find that Londoners' tolerance for his pantomime clowning becomes rather more limited.

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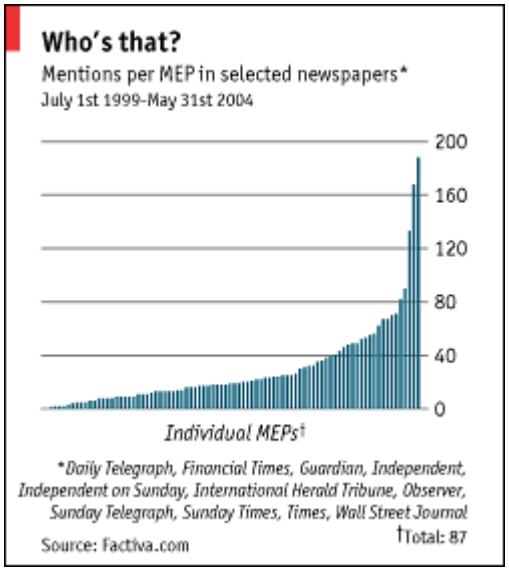
MEPs

Low profile

Jun 3rd 2004
From The Economist print edition

British Euro-MPs: unloved and obscure



IT IS a hard sell when so few know or care what you do. Still, it's odd that Britain's 87 members of the European Parliament (MEPs) have managed to stay quite so firmly out of the public eye.

A database search of national quality newspapers over the five-year lifetime of the parliament (see chart) shows only three MEPs—Labour's Glenys Kinnock, the Liberal Democrat Chris Huhne, and the Greens' Caroline Lucas—achieving more than 100 mentions. The vast majority received only half that, and more than a quarter managed only single figures, of which two—Elspeth Attwooll, a Scottish Liberal Democrat, and Gordon Adam, a Labour MEP from north-east England—scored zero. By contrast, Robin Cook, a former foreign secretary, gained 8,545—over three times the MEPs' total.

It's crude, of course, and there are mitigating circumstances: many MEPs, especially in Scotland or Wales, will find local papers a better bet than London-based ones. But it is hard to avoid the conclusion that some have been simply lazy—or that what they do is too dull to interest anyone in the real world.

Mr Huhne, an articulate former economics commentator with 168 mentions, blames journalists too: he cites a BBC radio discussion on the European Parliament which featured not MEPs, but three Westminster MPs. Densmore Dover, a Conservative from north-west England (who gained two mentions), says his work on the budget committee, although important, “doesn't grab a lot of people”. Sad, but true.

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Terrorism

A long stretch

Jun 3rd 2004
From The Economist print edition

A new US-UK extradition treaty bites for the first time

ON JUNE 3rd Britain's most unpopular Islamic cleric, Abu Hamza, was remanded in custody pending a formal hearing next month of an American extradition request. The case is the first test of controversial fast-track procedures secretly agreed in March last year.

Arrested at his London home last week, the flamboyant, one-eyed, hook-handed former imam of the now-closed Finsbury Park mosque is charged by the American authorities with 11 terrorist offences. These include providing logistical support to al-Qaeda and the Taliban, seeking to set up a terrorist training camp in Oregon, and helping mastermind a kidnapping of 16 western tourists in Yemen in 1998 that ended in the deaths of three Britons and one Australian. If convicted, he can expect a lifelong jail sentence.

In America, hostage-taking is a capital offence, so Mr Hamza could also face the death penalty. But under the European Convention on Human Rights, Britain is banned from extraditing anyone to a country where he might suffer execution. Britain says it has been assured by the Americans that they will not seek the death penalty in Mr Hamza's case.

While admitting having taken part in fighting against Soviet forces in Afghanistan in the 1980s, Mr Hamza denies any formal contacts with al-Qaeda. But his incendiary preaching and his mosque's links to several convicted al-Qaeda terrorists have kept him under close scrutiny from both the authorities and the media.

The Egyptian-born Mr Hamza is appealing against a government decision last year to remove his British citizenship. But the authorities have never managed to bring criminal charges against him, for want of usable evidence. In pressing their charges, the Americans have relied heavily on evidence from intercepted telephone and e-mail conversations. These are not admissible in British courts.

Much criticised both here and in America, the extradition treaty has not yet been ratified by Congress and thus has no force in international law. But, in Britain, its main provisions have been incorporated into the Extradition Act, which came into force in January. Under it, prima facie evidence is no longer required for someone in Britain to be extradited to America, though it is necessary for an extradition in the other direction.

The British government explains this by referring to the American constitution, which protects American citizens from being extradited on the mere say-so of a foreign government. Britons do not have the same rights. That may well be true. Whether it is fair is another question.

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Motoring economics

High-octane revolt

Jun 3rd 2004
From The Economist print edition

Fuel-price protests are bubbling. But motoring's cheaper than you think

IN THE popular lexicon, the “beleaguered motorist” is a staple sympathy figure, with his suspension bust by speed bumps and his wallet emptied by fines and taxes. Even terrorists now have it in for him: as the benchmark price of crude has risen in recent days, fuel prices have risen to near the symbolically important £1 per litre ($7 per American gallon).

Motorists, road hauliers and farmers—three icons of British victimology—are now threatening a repeat of the fuel protests of 2000, when oil refineries were blockaded and petrol stations ran dry. They want the government to cut fuel taxes to cap the price rises. Planned protests include blockades of rush-hour traffic in big cities, as well as of vital bridges and tunnels. The opposition Conservatives have backed “lawful” protests on the issue. But the government is standing firm, confident of its new contingency plans, and determined not to suffer another humiliation by a noisy minority.

In truth it is hard to see the motorist as very put-upon. Petrol is certainly taxed more heavily in Britain than elsewhere in Europe—75% of the price goes to the exchequer—but the motorists themselves are not. The proud driver of a 1.6 litre, petrol-engine car can expect to pay £976 in taxes a year, according to a 2001 study by June Burnham of Middlesex University. The same driver in Denmark, say, or Ireland would pay more—up to a third more in the Netherlands. And British roads are almost all free: the French driver, for example, pays an average of £62 ($114, €93) a year on toll roads, according to Ms Burnham.

Cars too are getting cheaper. According to the Office for National Statistics, the real price of a new car has tumbled by 13% in the last six years, once improvements in quality are taken into account. Partly as a result, 29% of households now have access to two or more cars, according to the Department for Transport. Compared to many tax systems elsewhere in Europe, Britain's leans relatively lightly on owning a car, but quite heavily on using it.

The other contentious issue facing the driving lobby is congestion. The road space a driver claims has an opportunity cost. If he were not on his patch of road, another vehicle could go faster. According to the Institute for Transport Studies at the University of Leeds, every extra kilometre a motorist drove in a city centre in 1998 cost his fellow road users 60p. In central London, it cost them £1.88.

Motorists, of course, see themselves only as victims of congestion, not perpetrators. But in truth they are both. There is no doubt that queues are tiresome, although the pain seems to be easing: morning rush-hour speeds on trunk roads actually increased by 2.6mph between 1998 and 2001. If drivers do fume on gridlocked roads, asks Steve Hounsham, of the lobby group Transport 2000, “whose fault is that except the motorists themselves?” Those beleaguered drivers, in other words, are mostly beleaguered by each other.

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Fly-posting

Return to sender

Jun 3rd 2004
From The Economist print edition

A London borough targets scallywags in suits

SINCE they were introduced in 1999, Camden council has taken out 83 anti-social behaviour orders (ASBOs) to remove prostitutes, vandals and drug dealers from its streets. Now it has added three record company executives to its list of miscreants. Two advertising managers from Sony and one from BMG are due to appear with the borough's other toughs at Highbury Corner Magistrates' Court on June 14th, when the ASBOs will be served. If the three accept this ignoble fate, they will have to sit down with a magistrate and work out ways to stay out of trouble. If not, they could face a short spell in prison.

Fly-posting, which involves sneaking around at night with a bucket of glue and a ladder, finding a likely-looking public space and pasting up advertising on it, is illegal in Britain but widespread. Advertisers officially frown on the practice, but it is a cheap and easy way for record companies to promote their wares. Camden reckons that fly-posting in their borough alone gives Sony and BMG between £3m ($5m) and £5.6m a year in free publicity.

Alan Woods, chief executive of a charity that runs the Keep Britain Tidy campaign, says the notion that fly-posting is done by struggling artists, political campaigners and local music promoters is a romantic myth. In reality, it's a hard-nosed business. If such amateurs trespass on a professional's patch, they may return from a night's work, if not quite in a concrete overcoat, then all too likely covered in glue and bruises. And there are externalities. Fly-posting is a visual pollutant, like graffiti; Camden's taxpayers have to pay around £250,000 a year to remove illegal posters.

The ASBOs also fit a wider pattern of government trying to recover costs inflicted on the public by badly behaved businesses. The home secretary recently announced plans to make pubs pay for clearing up the vomit and broken glass that accompanies binge drinking. If Camden's strategy works, the courts will find a sprinkling of MBAs mixed with their usual diet of louts and misfits.

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Education

Private lessons

Jun 3rd 2004
From The Economist print edition

How the private sector is helping improve public education

Get article background

IT WAS a tempting prospect: in the early years of the government's battle with the education establishment, a dozen failing Local Education Authorities (LEAs) were forcibly transferred to outside contractors, and a score of schools met a similar fate. That raised the vision of private companies taking over more parts of public education, improving them and building businesses in the process.

Some of that is happening. Because schools are increasingly in charge of their own budgets, they can choose to buy services from outsiders, rather than from monopoly officialdom. One firm, Serco, sells a school-management software package to individual schools all over the country. Increasingly, schools are forming clusters to buy such services jointly.

At the same time, some LEAs are voluntarily doing deals with outsiders. In April Surrey County Council, one of the best-run in the country, announced an £100m seven-year deal with VT, part of what used to be the engineering group Vosper Thornycroft, to spin off its schools-management service into a separate firm, VT4S. This aims to sell services to schools and LEAs elsewhere in Britain, and eventually abroad. Surrey already runs payroll and personnel services for a smaller next-door authority.

Some cash-strapped smaller authorities find it cheaper to buy in specialist services than to do every job themselves. CfBT, a non-profit outfit, has won contracts for school-improvement services in two counties, Lincolnshire and East Sussex. Despite the pain and embarrassment of privatisation, some authorities are happy with the results. Walsall, for example, handed over to Serco in 2001 after performing dismally, now wants to extend the contract for two further years after it expires in 2006.

But even the most ardent enthusiasts now doubt that the private sector is going to have a big role in providing education. The dozen or so outfits that try to sell their services to the government are understandably gloomy. Few of their chief executives want to be quoted, for fear of offending their only big customer. One says “things are going backwards”. It's “frustrating”, says another. The market's “static”, says a third. A fourth says “it's slowed down to nil”. A fifth says: “Education will never be a highly profitable business. You'd be crucified if you were seen as making money on the backs of children.”

Contracts are not just increasingly scanty, but many existing ones have been complicated and acrimonious. Over-ambition, inexperience and outright incompetence by the outside companies have led to some spectacular foul-ups. In Southwark, in south London, WS Atkins simply gave up on its contract last year, leaving the government and the local council scrambling to find someone to take over.

All that's bad news for business, but not necessarily for parents and pupils. The main reason companies are not doing better is that they are victims of their own success. The threat of being replaced has forced bad LEAs to work harder. In London, where the worst authorities were concentrated, test scores have risen faster than average—both in the privatised LEAs, and in the ones scared of privatisation. “The threat of an alternative concentrates the mind,” says Alan Smithers, professor of education at Liverpool University.

Such concentrated minds can mean thin pickings for outsiders: Wandsworth, a leanly run London borough that pioneered the outsourcing of services such as rubbish collection, has no outside contracts in its education department. In-house work has proved to be more efficient, says Malcolm Grimston, the local politician in charge of education.

What next? The big question is whether the government will try for another shake-up of local monopoly provision. There was an encouraging hint of this when the prime minister, Tony Blair, said in a recent speech that only those local authorities that actively helped city academies—new schools financed directly from the centre—would get new money to rebuild their own existing schools.

That's a good idea, but risky. Mr Blair's policy wonks like the idea of cutting out the LEAs, and stimulating outside involvement. But Nick Raynsford, the minister who looks after local government, recently called the idea of bypassing LEAs “bizarre”. Who wins this argument will help shape Labour's manifesto for the next general election—and the future of education if it wins.

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IT in the NHS

A very big idea

Jun 3rd 2004
From The Economist print edition

The NHS is to spend billions on IT. Will it be spent well?

IT IS the biggest information-technology project in British history: to provide electronic patient-care records, appointment-booking and more, by linking every National Health Service (NHS) site in England. It involves 270-odd health trusts, 18,000 sites, 28,000 hospital doctors, over 30,000 general practitioners, and 50m potential patients. The first “England-wide” care records should be in place late this year, and every last detail (including patients' access to their own records) by 2010. Already contracts worth over £6 billion have been placed. But will it all work?

The record of big government IT projects is dire. That is why this one has been designed differently—but, paradoxically, that creates even more doubts.

At its heart is a “national” database of patient records, covering all of England (Scotland and Wales run their bits of the NHS for themselves). BT won this contract, running to 2013. Also national is a seven-year contract, won by BT as well, to organise (from local competitive bids) a broadband network, which, not least, will let X-rays and the like move as data, not bits of film; a small five-year contract for hospital appointment bookings; and, eventually, a contract for e-mail and an NHS directory.

Costly prescriptions

NHS contracts

Service	Contractor	Value £m	Lasting for/till
E-booking of appointments	Schlumberger-Sema	64	5 years
National patient-records database	BT	620	2013
North-east region	Accenture	1,099	2013
London	BT	996	2013
Eastern region	Accenture	934	2013
North-west & West-Midlands region	CSC	973	2013
Southern region	Fujitsu	896	2013
Broadband network	BT	530	7 years
E-mail and directory service	*Undecided*		7-10 years

Source: NHS

But input and access to the national database, and much other local IT, will come via regional suppliers: in two of five regions from Accenture, in one apiece from Fujitsu, Computer Sciences Corporation (CSC) and BT. Given that the NHS wants a seamless whole, why have rival solutions?

One reason is the project's sheer scale and complexity. It does not start from zero: for a time, many varying bits of older IT will survive, and it has to work with them. No one contractor, it was felt, could handle that. A cruder answer is burnt fingers: lone suppliers have messed up, at the Inland Revenue and elsewhere. Now, if one fails, there will be others ready to do the job.

That comes at a price: four sets of consultants paid to find five answers to what is, basically, one question. The rival prices may have shrunk as the bidding went on: the costliest contract, Accenture's for the north-east, was one of the first two signed, in early December; the cheapest, Fujitsu's for the south, came last, in late January, yet covers far more NHS patients. Even so, say critics, the project could have been tackled more riskily, but cheaper. In the long term, however, the five-region set-up may pay off: when these contracts run out in 2013, there will be four firms with the experience to bid for new ones at keen prices.

Yet can the four solutions really be integrated to work as one? The suppliers “are crying out for central co-ordination”, says one outside specialist. They're getting it already, the NHS replies. Those in charge of the five regions, both from the suppliers and the NHS, meet constantly to sort things out, and if they cannot agree on some issue at one level, up it goes to the next. No supplier, contractually, can go ahead with its private way of solving some problem, unless it can show that this will work with the “spine” of the system, the BT-run national database. And in each region an area has been chosen—Goole, Huntingdon, Coventry, Slough and the Paddington district of London—to test both this, and whether the local “legacy” IT that people want to keep can be made compatible with what is proposed.

That's the machinery. But does it in fact work? Yes, says one supplier, very flatly. But even if that's true now, cynics ask, will it last? Only strong central control can ensure that. At regional level, for instance, “foundation” hospitals, which have wide autonomy, may fancy their private IT. Ultimately, they could be forced to comply; far better that they be nudged or pushed. Patients moving to or from Wales and Scotland, where Whitehall has no say and no financial weapon, must hope that common-sense will work there too.

There's a non-technical issue as well. New IT works best with refashioned business practices. Will the managers, clinicians and GPs who must use the new IT actually adapt to it, and how fast? An earlier attempt at a national e-mail system for GPs was taken up by very few and the NHS has just terminated that contract. The legions of Hippocrates do not take orders gladly.

Much has been made of an alleged lack of consultation. Of doctors questioned for an internet poll in February, only one in eight thought their consultation at all adequate, and three-quarters said they had never been consulted. Maybe; but how many outfits with nearly 60,000 such senior figures would get near to consulting even a quarter, adequately or not?

Yet support by the users is indeed vital if the huge project, however technically successful, is not to become a glossy package with little inside. The NHS says this is the “key” to success and has put the deputy chief medical officer, Aidan Halligan, in charge of it. And at least the heart of the scheme has doctors' firm backing: four-fifths of them told the poll cited above that providing national patient-care records would indeed be of real importance.

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MG Rover

Small is not beautiful

Jun 3rd 2004
From The Economist print edition

Sales shrink at the last British-owned (would-be) volume carmaker

THE Mini it isn't. “Unrefined and dated”, said *Carbuyer* magazine, comparing MG Rover's new small car with its rivals. And indeed the Indian-built CityRover, launched last autumn, has sold in driblets. Nor do MG Rover's woes end there. Its plans to build a new mid-sized car in collaboration with one Chinese firm fell apart in 2002; it has been talking to another, and to Malaysia's Proton company, a marque of minimal repute in Britain. Thus far has the last British-owned mass-market carmaker fallen. Can it survive?

That it and its Longbridge, Birmingham, plant exist at all is due to the four men who, under the name of Phoenix, bought it (plus a £427m 49-year loan) from BMW for a tenner in 2000. They were local heroes then. But the mood changed last autumn when it was learned that, while the firm was deep in the red, the four would get £2.5m apiece when Phoenix repaid a £10m “loan” in 2005, besides the lion's share of a £13m top-executive trust fund. Fair reward for big risks, they argued. The unions and media snorted.

The four got strong backing, reflecting their risk-reward argument, from Patricia Hewitt, the industry secretary, in the run-up to this week's Motor Show. But the week brought more fat-cat tales: each of the four owns £500,000 in preference shares in MGR Capital, the leasing side of the business, a joint-venture with HBOS, (aka Halifax Bank of Scotland) with dividends of 20% and two also own equity, which could prove rewarding if MGR Capital is wound up.

Fairly or not, all this has hit not just the four men's image but MG Rover's. It is a minor carmaker, with aged models; it is losing money. Fat-cattery apart, the last thing it needed was attention drawn to those facts. Last year's sales—145,000 units, says the firm, though production was slimmed to 135,000—were already on the slide. That has continued. In the home market, where MG Rover sells two-thirds of its cars, only 31,700 of them were registered in January-April this year: a 3% fall from those months of 2003, in a market 4% up. Of course the giants, Ford and GM's Vauxhall (143,000 and 119,000 respectively), outsold MG Rover, as did the continental firms and Nissan, Honda and Toyota, for these are offshoots of big firms with the money for new models. But even the tiny Mercedes-built Smart, more fashion statement than car, sells as many as the CityRover.

And what of the real Mini, brilliantly reinvented by BMW, who kept that marque when they sold the rest to the Phoenix four? In Britain alone, it outsells MG Rover's little car more than fourfold.

Worldwide, 175,000 Minis were sold last year, and this year there'll be more—if BMW can get them built: its Mini plant at Oxford is bursting at the seams. The outcome may well be further investment there, and perhaps even, turning the usual manufacturing scenario on its head, transfer of the building of its engine from low-wage Brazil to a BMW plant at Hams Hall, north-east of Birmingham.

For Britain's motor industry, that would stand nothing on its head. For decades the choice has been: either drift and decline under British owners, or invest and flourish under foreigners. MG Rover's 6,000-plus workers at Longbridge have plenty to fear.

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About sponsorship

Bagehot

Nobody to blame but themselves

Jun 3rd 2004
From The Economist print edition

Voters are right to be apathetic about next week's elections

IT'S an entirely safe prediction that there will nothing in the least bit super about next week's “Super Thursday” elections. On past form, only about one in four Britons will think it worth voting to send someone they have never heard of to the European Parliament, while just one in three will cast a vote in local government elections—about the same as will bother to elect London's mayor. There will be the usual lamentations from the political establishment about the grievous consequences for our democracy of voter apathy, plus some short-lived breast-beating about the need to find new ways to “connect” with the electorate. Yet such lamentations will be laden with hypocrisy. For in truth cynicism pervades this whole issue.

Take the current row over postal ballots. The government may have started with the apparently virtuous desire to increase turnout by making it easier for people to vote, but its initial good intentions were quickly overwhelmed by opportunism. In the last mid-term elections, in 1999, Labour suffered because its traditional supporters had less incentive to vote than those who were determined to register an anti-government protest. Could postal voting be used to offset the disadvantage of incumbency, ministers pondered?

Instead of the limited pilot recommended by the independent Electoral Commission in which “postal-only” voting would be allowed in just two areas of the country, the government decided, to the fury of opposition parties, to impose the experiment on four regions, encompassing 14m voters. Quite by coincidence, three of the four regions happen to be in Labour's northern heartlands. The organisational shambles that has emerged, which may deprive some people of their right to vote because of late-arriving ballot papers, is the inevitable consequence of going too far, too fast and for the wrong reason.

Cynicism of one kind or another permeates each of the three elections to be held on June 10th. Thanks to the insatiably centralising tendencies of successive Tory and Labour governments, local government receives more than three-quarters of its cash from the Treasury. The vast majority of the tasks that councils undertake are mandated by their paymaster and relentlessly monitored by a regime of inspectors, auditors and centrally determined performance targets. The result is a savage “gearing effect” that requires a 4% increase in council tax for every 1% of discretionary spending over and above the projections of central government, and “capping” when ministers are worried that council tax bills are rising too quickly. Local councils complain that they are not much more than the tightly controlled agents of central government—and they are right.

Without the power to raise more of the money it spends, local government loses much of its voice and most of its point. Everyone admits it, but for all the fashionable chatter about the “new localism”, everyone also knows that nothing much will change. Cynicism rules and voters sit on their hands.

London's mayor also has few powers, although Ken Livingstone has used what little he has to some effect (see article). But the mayoral election has generated a cynicism all of its own. Having been expelled from the Labour Party four years ago for the cardinal crime of standing against the party's official candidate and after having been described by the prime minister as a “disaster for London”, Mr Livingstone was earlier this year brought back into the fold by Tony Blair himself.

Mr Livingstone has turned out to be less frightful than Mr Blair feared. But nobody denies that Mr Livingstone's rehabilitation is entirely due to Labour's need to claim a victory in the capital to offset grim results elsewhere. For his part, Mr Livingstone is no closer to New Labour, but party membership means a better chance of being rescued from his municipal profligacy.

The cynical tendency

Of the three, however, it is the elections to the European Parliament that generate most cynicism. Largely, this is because, unfortunately, Europe itself provokes cynicism. But the system of closed lists, chosen by the government five years ago, in which the parties rank their selected candidates to match the number of seats to be filled in a particular region, could have been designed to encourage voter indifference. It's no wonder the two main parties like to keep their MEPs as anonymous and remote from the electorate as they can. Embarrassingly, Labour MEPs sit in the parliament with the European Socialists, who bitterly oppose both the Iraq war and the liberal economic policies beloved of Mr Blair and Gordon Brown, the chancellor. For their part, Eurosceptic Tory MEPs are aligned with the fervently federalist and pro-constitution European People's Party.

The campaign too is permeated with cynicism. Mr Blair, who was going to end Britain's historical ambivalence towards the EU, has yet to make a speech on Europe. Charles Kennedy, whose Lib Dems claim to be both the party of local government and Europe, has declared Super Thursday a referendum on the Iraq war.

Meanwhile, the Conservative leader, Michael Howard, petrified by the swelling support for the virulently anti-European UK Independence Party, implausibly triangulates his party towards the moderate centre. On one “extreme” sit Labour and the Lib Dems, intent on building a “European superstate”, on the other, UKIP, determined to take Britain out of the EU. Mr Howard might reflect that without years of frothing Tory Europhobia, there would be no UKIP. If the “cranks and political gadflies” of UKIP damage the Tories badly, it will be justice of a kind.

Cynicism begets cynicism, low turnouts and 15 minutes of fame for nasty little fringe parties. The real mystery is not why so few people will vote in these debased elections, but why so many still feel a civic duty to do so.

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Becoming a serious country

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From The Economist print edition

Magnum

Argentina has a big opportunity to reverse its history of decline. But it will need to draw the right lessons from the past, says Michael Reid

FROM Wednesdays to Saturdays, a would-be diner who turns up at a restaurant in the fashionable Barrio Norte of Buenos Aires at 9pm without a reservation may have to wait for an hour or more for a table. Calle Florida, the pedestrianised shopping street running parallel to the River Plate, is thronged with tourists taking advantage of the cheap peso and the shiny new shops selling fashion, consumer electronics and books. Farmers from the Pampas are splashing out on new harvesting machines and pick-up trucks.

Almost across the board, Argentina's economy is booming. The recovery gathered pace throughout last year: since September, GDP has expanded at an annual rate of 11%. And as the economy picked up, the government's authority seemed to revive in parallel.

What makes this remarkable is that only two years ago Argentina was in chaos. In 2001 it suffered its worst economic collapse in more than a century. In December of that year, after $20 billion had fled the country and bank deposits were frozen, an incongruous combination of unemployed rioters and pot-banging middle-class protesters caused Fernando de la Rúa, the Radical president, to resign.

To a cacophony of *que se vayan todos* (kick them all out), the political system appeared to implode. Three stand-in presidents came and went in a week; one of them declared the biggest sovereign default in history, on public debt of $80 billion, to cheers from the Congress. A fourth, Eduardo Duhalde, a Peronist political boss, dismantled the currency-board system that had pegged the peso to the dollar at par for a decade. Leaving it was always going to be messy, but the way Mr Duhalde did it made it more so: he decreed that dollar deposits and loans be converted to pesos at different exchange rates. He also switched the utility tariffs to pesos and froze them. It was a misguided effort to help debtors, industrialists and the middle classes at the expense of banks, privatised firms and taxpayers.

But Mr Duhalde did manage to calm social tensions and steer the country to an election in April 2003, in which the main candidates were three Peronists and two former Radicals. Carlos Menem, the country's president from 1989 to 1999, won 24% of the vote, which put him ahead of Néstor Kirchner, a fellow Peronist but on the party's left. Polls suggested that Mr Kirchner would have won some 75% of the vote in the run-off ballot. Disgracefully, Mr Menem pulled out, depriving his opponent of a popular mandate.

Mr Kirchner was an unexpected president. He benefited from the paradox of Argentina's post-collapse politics: on the one hand, voters clutched at Peronism (in the shape of the Justicialist Party) as the only force offering authority, despite its internal splits; on the other hand they fervently wanted political

renewal. Mr Kirchner managed to embody both qualities. He was backed by Mr Duhalde and his powerful political machine in Buenos Aires province. But he is also an outsider. Descended from Swiss and Croatian immigrants, he was the governor of Santa Cruz, a bleak if oil-rich Patagonian province the size of Italy but with just 200,000 people.

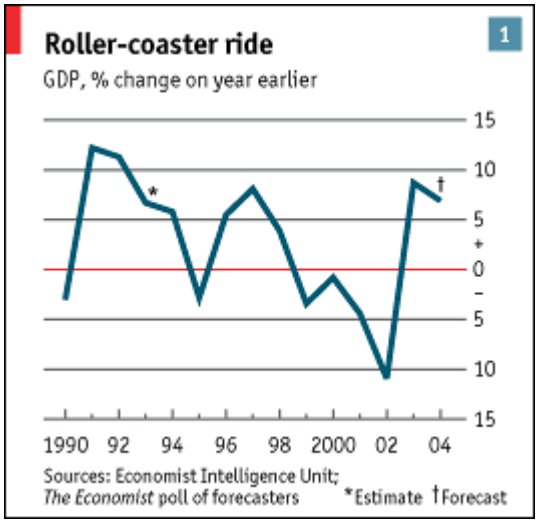
Despite his unpromising start, Mr Kirchner has achieved an unusual degree of political dominance, matched during Argentina's two decades of restored democracy only in Mr Menem's early years. In provincial elections for governors and federal congressmen in the second half of last year, the Peronists won handsomely. They hold comfortable majorities in both houses of Congress and 14 of 24 provincial governorships (another is held by a personal ally of the president). A year into Mr Kirchner's term, polls suggest that some 70% of Argentines approve of him.

Just as well, because he and his country face formidable tasks. Venture out of those packed restaurants at night, and the streets and parks of Buenos Aires, so elegant in the daytime, have been taken over by an army of the poor, picking over the city's rubbish or sleeping rough. The economic slump of 2001-02, which followed three years of recession, left the social fabric torn. Much of the growth of the 1990s was wiped out (see chart 1). In 2002, income per head was 22% below its level of 1998. Unemployment soared: at its peak it reached 18% (or 21% if those on an emergency welfare programme are included), though it has now fallen to around 15%. More than half of all Argentines dropped below the national poverty line.

The collapse caused other damage too. For a while under Mr Menem, Argentina looked to many outsiders like a great advertisement for free-market reforms. Mr Menem and Domingo Cavallo, his economy minister from 1991 to 1996, put an end to hyperinflation with their currency-board scheme. Known as “Convertibility”, this fixed the peso by law, not executive whim, and limited the money supply to the stock of hard-currency reserves. They also privatised almost all the enterprises once owned by the state and welcomed foreign investors. The International Monetary Fund swallowed its doubts about Convertibility and held up Argentina as a model for other emerging economies. So when the country's economy collapsed, it became a grim exhibit in the case against globalisation.

Economists still argue about why Convertibility fell apart. The

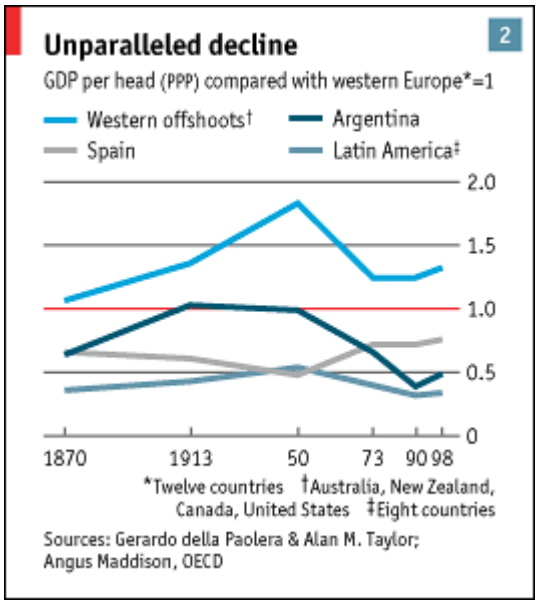
conventional wisdom is that Argentina's fiscal policy was incompatible with the currency board. The country's fiscal deficits, though never large, were chronic. Even as the economy grew, public debt swelled under Mr Menem, from 29% of GDP in 1993 to 41% in 1998. That was partly because of his quixotic drive to spend his way to an (unconstitutional) third term. But another big reason was a pension reform involving a switch to individual accounts. In the long run that should save the government money, but first it produced an extra annual bill equal to 1.5% of GDP.



In hindsight, Convertibility was doomed once Russia's 1998 debt default provoked a stampede of capital from emerging markets. That threw Argentina into recession, aggravated by devaluation in Brazil, its main export market. Unable to devalue, Argentina had to hope that deflation would eventually improve its competitiveness. But deflation is painful for democratic governments, and Mr de la Rúa's was anyway weak and divided. His last throw was to bring back Mr Cavallo, whose costly efforts to stave off devaluation precipitated financial collapse.

Nowadays it is hard to find anyone with a good word for Mr Menem. Living in Chile, he has defied summonses from three different judges investigating allegations of corruption during his rule. By contrast, Mr Kirchner is seen as personally honest. He has promised to make Argentina “a serious country”, and launched a rhetorical assault on the symbols of Menemism: the IMF, with which he has wrestled over his economic programme; the holders of the defaulted debt, who have been brushed off for the past two years; and the privatised utilities.

The 2001-02 collapse was exceptional in its severity, but wild economic fluctuations have been the norm in Argentina for decades. In 1913, the country's income per head was on a par with that of France and Germany, and far ahead of Italy's or Spain's. That was thanks to three decades of growth averaging 5% a year, driven by exports from the Pampas, foreign (mainly British) investment, especially in railways, and immigration (mainly from Spain and Italy). Since then, Argentina has lost ground against western Europe almost continuously (see chart 2).



A puzzling decline

Argentina is thus not a “developing country”. Uniquely, it achieved development and then lost it again. That is a haunting condition: it may help to explain why psychoanalysis and the nostalgia-ridden tango are so popular in Argentina. It is reflected, mockingly, in the fading Belle Epoque splendour of Buenos Aires.

What went wrong, and when? According to one school of thought the decline began in 1913, as the Pampas became fully settled: growth slowed because the country proved unable to industrialise and diversify effectively. Liberals, for their part, have traditionally blamed the governments of Juan Péron (1946-55), with their quasi-fascist pursuit of autarky and a state-run economy. Leftists have a more precise date: March 24th 1976, when the most vicious dictatorship of South America's recent history took power. In this view, shared by many of those close to Mr Kirchner, the dictatorship's economic policy prefigured Menemism, running up unsustainable debt and destroying the state's capacity to regulate the economy.

There is some truth in all three views. What made matters worse is that Britain cast Argentina adrift after the second world war, and the United States never showed much interest in sponsoring the country's development.

Yet the most powerful factor in Argentina's decline has been its unstable politics since 1930, when a (not very bloody) military junta took power, ending seven decades of civilian constitutional government. The

rule of law has been repeatedly trumped by executive power ever since. That is one reason why the state has been able to expropriate private savings so often, through hyperinflation or devaluation—and why Mr Cavallo thought it necessary to set up the currency board.

It is hardly surprising that Argentines are holding perhaps $100 billion abroad. Credit from the country's banking system to the private sector equalled only 25% of GDP at its peak in the 1990s, low even by Latin American standards. As a result, Argentina's economy is hostage to the in- and outflow of capital.

This survey will argue that Argentina and its president now have an extraordinary opportunity to do better. The country's democracy has shown resilience, with little suggestion of a return to authoritarian rule. The turmoil claimed few lives. Although prices rose by 40% in early 2002 as the peso slid, Roberto Lavagna, brought in as economy minister by Mr Duhalde and kept on by Mr Kirchner, steadied both the exchange rate and prices.

Seize the moment

After a slow start, recovery has been swifter than many expected, and similar to that in other countries that have unpegged their currencies. It has been greatly helped by outside factors: prices for Argentina's farm exports soared after a long period of stagnation (though last month they dipped again). So far, growth has come from bringing idle capacity back into use. But bottlenecks—notably, energy shortages—are starting to appear. New investment is needed. Mr Lavagna points out that investment last year increased by half; it reached 17% of GDP by the last quarter of 2003. But merely maintaining the capital stock requires investment of 18% of GDP, says Luis Secco, an economic consultant.

If Argentina is to make the most of its opportunity, Mr Kirchner will have to take swift, perhaps unpopular, action to clear up the unfinished business left over from the collapse. But above all he will need to draw the right lessons from its travails. A good place to start is the rule of law.

From stability to turmoil 3

A political chronology

1860-1930	"Aristocratic Republic": civilian constitutional governments; limited franchise
1930-45	Military-civilian coalitions; rising nationalism
1946-55	General Juan Perón: elected autocracy; corporatism and social reform
1955-73	Military governments punctuated by brief periods of civilian rule
1973-76	Perón dies in office: rising political violence of guerrillas and death squads
1976-83	Military juntas: repression and "dirty war"; invasion and defeat in Falklands
1983-89	Raúl Alfonsín *(R)*: democracy restored; but term truncated by hyperinflation
1989-99	Carlos Menem *(P)*: economic reform; "Convertibility" and political sleaze
1999-Dec 2001	Fernando de la Rúa *(R)*: weak coalition government, deflation, economic collapse
Jan 2002-May 03	Eduardo Duhalde *(P)* chosen by Congress to finish term. Ends "Convertibility"
Apr 2003	Néstor Kirchner *(P)* elected

(R): Radical *(P)*: Peronist

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Crimes past, crimes present

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Argentines are demanding something new from their government: law and order

AP/Magnum

Menem's fiesta ended in tears

THE Naval Mechanical School, built in French colonial style with tall, shuttered windows, occupies a leafy enclave in the prosperous northern residential districts of Buenos Aires. After the 1976 coup that established the dictatorship of General Jorge Videla and his successors, the school was the chief among several clandestine concentration camps where up to 30,000 people were killed, many after being kidnapped and tortured. Several hundred were guerrillas; many more were peaceful left-wing activists; a few simply had assets that the regime's killers coveted. To mark the coup's anniversary, on March 24th this year Mr Kirchner made an emotive speech before a crowd of 10,000. He apologised to the victims of state terrorism and announced the conversion of the school to a Museum of Memory.

Human-rights groups are impressed. “The president is surprising—we're living a political spring,” says Estela Carlotto, the president of the Grandmothers of the Plaza de Mayo, a group campaigning to clear up the theft of up to 500 babies of murdered opponents of the dictatorship. On taking office, Mr Kirchner immediately set about purging the armed forces. He backed a new law to revoke the pardons granted by Mr Menem to the junta members jailed under his predecessor, Raúl Alfonsín, and another that would declare void two laws blocking further trials.

By July, reckons Rosendo Fraga, a political analyst, up to 400 officers may be in jail facing trial. Three generals and an admiral resigned their commissions in March in protest against the president's moves. But the forces these days are a toothless lot. Argentina is “the last country in Latin America that might have a military coup,” says Mr Fraga.

Nevertheless, Mr Kirchner was widely felt to have gone too far with his speech for the coup's anniversary. He pandered to human-rights groups by excluding Peronist governors from the ceremony, and failed to condemn political violence in general, right or left.

Why is the president so exercised by the crimes of the past? Some think he is re-fighting the battles of the 1970s. Others reckon he just likes to pick fights to enhance his power. Yet others put it down to his fear of being outflanked on the left. He has refused to repress the *piqueteros*, a movement of unemployed protesters. The death of two *piqueteros* at the hands of the police caused Mr Duhalde to cut short his term. Social peace in Argentina is still fragile.

Officials argue that concern for human rights is part of a broader agenda. “Argentine society is convinced that the impunity of the army's crimes facilitated corruption and lack of respect for the rule of law,” says Jorge Taiana, the deputy foreign minister. In matters of law and order, the president may be following public opinion—not always accurately—rather than leading it.

On the side of the angels

“Today, a politician who wants public support has to adhere to an agenda of the rule of law, fighting corruption, and promoting open government and human rights,” says Roberto Saba of the Association for Civil Rights, a pressure group for reform. That is one legacy of 2001. Manuel Mora y Araujo, a sociologist and pollster, says that most Argentines blame the collapse on corruption and debt rather than on Convertibility or the IMF, and think that “the debt was because of corruption—Menem sold everything but the debt grew because the money was stolen.” A second legacy of the collapse comes from the *cacerolazos*—the pot-banging protests. Argentines may be wary of politicians, but society is organising as never before.

One example is the movement for judicial reform. In 1946, Perón started a dishonourable tradition when he engineered the impeachment of the Supreme Court and installed his own patsies. Most presidents since have been unable to resist appointing their own placemen (Mr Alfonsín was an exception). Mr Menem packed the court with spectacularly unsuitable cronies: one was his law partner, another the head of the national tennis association.

Mr Kirchner has followed the tradition by easing out three of Mr Menem's cronies, but his nominees for the court are three respected judges. Two are left-leaning but one is conservative, and two are women. The president has also introduced a new procedure for their approval: after public consultation on their suitability, the nominees are now grilled by the Senate.

Argentine courts are notoriously slow, inefficient, secretive and corrupt. The Supreme Court, for example, rules on 15,000 cases a year, of which 6,000 concern individual pension appeals. Mr Saba's group and others have proposed a raft of reforms to make the court more effective and accountable. They want it to concentrate on cases of constitutional significance and to hold hearings in public. They also want judges to pay income tax, which at the moment they do not. Many of these measures have been accepted by the court, though the details remain to be settled.

A week after Mr Kirchner's speech at the Naval Mechanical School, a demonstration took place that involved no politicians but a far larger crowd. Juan Carlos Blumberg had organised a march on Congress after his only son, a university student, was kidnapped and killed. Some 130,000 people joined him to press for tougher penalties and more effective policing to contain a wave of crime.

Argentines have always liked to think of their country as more European than Latin American, and safe streets and a low crime rate played an important part in that. Buenos Aires is still much safer than other Latin American capitals, but it is less safe than it was. That is partly because of widespread joblessness, especially among young males. But it is also because of the incompetence of the police, the courts and the prison system.

The Buenos Aires provincial force has an especially bad name: its officers appear to have been actively involved or bribed to look the other way in many kidnaps, including the Blumberg case. Other forces, including the federal police, are not much better. “In 20 years of democracy, Argentina hasn't been able to organise a police force. We talk of the glorious achievement of civil control over the armed forces and we have criminals embedded in the state,” says Natalio Botana, a historian at Torcuato di Tella University in Buenos Aires.

One reason is that the police have been used as instruments of political control. In the Buenos Aires rustbelt in particular, there is a corrupt symbiosis between Peronist political bosses, police chiefs, young toughs and drug traffickers.

The Blumberg march sent the politicians scurrying. Congress voted hastily to rescind parole schemes. Mr Kirchner and Felipe Solá, the governor of Buenos Aires province, have agreed to set up a new—and, it is hoped, clean—metropolitan force. Yet reform needs to be a long-term effort, cautions Victor Abramovich of the Centre for Legal and Social Studies, an NGO. He worries that the police may respond to purges by inciting violence, and points out that police stations have three times as many prisoners as cells. Prosecutors, he says, need more freedom to decide which cases to investigate and when to bring charges; at present, those powers rest with judges.

Argentines also need to look to themselves. “People think the law should be respected, but nobody does respect it,” says Mr Mora y Araujo. “Those who steal a lot are seen as corrupt, but people think it's OK to steal a little.”

There are plenty of other things wrong with the state apart from the police. Conventional wisdom in Argentina has it that Mr Menem caused the state to disappear. In reality, the story is much more complicated than that.

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Peronism and its perils

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Populism has compromised the role of the state

SALTA, an attractive Spanish colonial city in a broad green valley surrounded by Andean foothills, is typical of non-metropolitan Argentina. It is much closer to Bolivia than to Buenos Aires, 2,000 kms (1,250 miles) away. Salta is not the poorest of Argentine provinces. It has natural gas, tobacco and some mining; in recent years, revenues from soya, wine and tourism have grown apace. But it also has plenty of places like Barrio Norte Grande, a sprawling maze of brick-and-tin houses at the edge of the provincial capital, where jobs tend to be casual and petty crime, drug-taking and prostitution are rife.

Salta is typical, too, in its politics. Since 1995, it has been governed by Juan Carlos Romero, a Peronist who stood as Mr Menem's running-mate last year; before that, it was run by his father. The Romeros are self-made men, and the current governor prides himself on his businesslike approach. The province invests a lot in public works but has a large budget surplus, says Fernando Yarude, his finance minister.

Dig a little deeper, however, and complaints well up that Mr Romero is something of an old-fashioned strongman, albeit with a modern face. Mr Romero owns Salta's main newspaper and radio station; the local courts are under his thumb and so, it seems, is much of the population. The provincial government hands out minimum-income payments to 90,000 people under a national scheme, the *Plan Jefes y Jefas*, or Heads of Family Programme. Opponents claim that who gets them is decided by the local political leaders. “The state is the lord and master of those people. They're scared to complain,” says Andrés Costas, a National Congress member for Salta's opposition Renewal Party.

What makes Salta—or any poor part of the country—different from Bolivia is that Argentina has the rudiments of a welfare state. In addition to the *Plan Jefes*, that means there are doctors to staff the local health post, and children go to school, as much for the free meals as for the lessons. But María Victoria Vacaflor, a community leader in Barrio Norte Grande, says this comes with political strings. “They always want you to be grateful to the government. The health centre has no drugs, but you can get free medicine at the governor's office.”

The story is much the same in other provinces. There are exceptions, such as Córdoba, Mendoza and Santa Fé, which are better run. But the norm, especially in the poorer north and north-west, is family fiefs, barely disturbed by the ripples of democracy. Governors have simply changed provincial constitutions to allow themselves to be re-elected twice (such as Mr Romero, or indeed Mr Kirchner in Santa Cruz), or indefinitely (for example, Adolfo Rodríguez Saá in San Luís).

Caudillo country

These fiefs have a long history. Even today, Argentina is a huge, empty country: the world's eighth-largest in area, but only 31st in population, with 38m people. Its unity was not pre-determined. For the first half of the 19th century, Buenos Aires, whose leaders wanted a unitary republic under their tutelage, fought the federalist *caudillos* of the interior over the shape of the new nation. In the end the two sides settled for a draw, embodied in the constitution of 1860. The outlines of that deal survive today. It gives disproportionate clout to small, backward provinces. In population terms, they are over-represented both in the Senate and in the lower house of Congress. Even allowing for their poverty, they get more than their fair share of federal revenues under a transfer system. That pays for armies of public employees who make up a political clientele.

Provincial politics and its *caudillo* system has had a lasting influence on national politics. It is one of the sources of Argentina's pervasive populism and its history of catch-all political movements. Latin American populism is not a synonym for leftism; it is as close to fascist corporatism as to socialism, involving strong leaders who blur the distinction between government and state. Unlike Chile or Uruguay,

Argentina failed to develop a stable two- or three-party system of conservatives and liberals or, later, social democrats.

Instead, Argentina got two populist movements, Radicalism and Peronism. Both were ambivalent towards capitalism, and both ramped up public employment. Perón built his movement as an unstable coalition between corporatist trade unions and the conservative provincial *caudillos*. The result, argues Sergio Berenzstein, a political scientist at Torcuato di Tella University, was “a state-dominated society”. Workers, business and other interest groups entered into pacts with the state rather than seeking political change. The system left little space for democratic opposition, and thus bred military intervention and political violence. Political differences were fought out within parties (often violently) rather than between them.

The orderly and democratic handover from Mr Menem to Mr de la Rúa in 1999 was much celebrated in Argentina because it was the only such transition from one party to another since before 1930. Significantly, no Radical president since 1928 has finished his term. Provincial over-representation has given Peronism a built-in majority in the Senate; a slew of small provincial parties also makes it hard to achieve a majority in the lower house.

But the all-powerful state had feet of clay. Guillermo O'Donnell, an Argentine political scientist at Notre Dame University in Indiana, dates the start of its decline to its politicisation during Perón's second government (1952-55), when senior civil servants were required to be members of the ruling party. Under the dictatorship, military cronies came in. Then the money ran out: the 1980s were a decade of debt, inflation and recession.

Mr Menem turned education and health over to the provinces, with mixed results. In most provinces, secondary schools are staffed by “taxi-driving teachers” paid only for the hours they spend in the classroom, says Daniel Filmus, the education minister. Many provinces have no career structure for public servants. “The state is useless,” was Mr de la Rúa's withering judgment when he took office. The foreign service and the central bank are partial exceptions that prove the rule.

A quintessential Peronist?

What will Néstor Kirchner make of the challenge of governing Argentina? He has many of the traits of a provincial politician. Those who know him describe him as blunt to the point of rudeness and mistrustful to the point of paranoia. His closest adviser is his wife Cristina, a Peronist senator for Santa Cruz and a feisty politician in her own right. His cabinet includes a large Patagonian contingent, headed by his sister. He has held no cabinet meetings, preferring to see ministers individually. Observers say it is he, rather than his ministers, who makes policy on important issues such as debt, relations with the IMF, the privatised utilities and the Falklands.

In Santa Cruz, he was an authoritarian boss in the mould of the provincial *caudillo* who brooked no opposition from the courts. But he seems to realise that such methods will not work in the Casa Rosada, the presidential palace. He is known as a fiscal conservative, and is said to inspect the government's books every day.

His supporters stress his disdain for the sort of Peronism represented by the conservative governor of Córdoba, José Manuel de la Sota, or by Mr Duhalde—“an exhausted right-wing populist party,” says Miguel Bonasso, a leftist congressman and close friend of the president, whom he describes as a “social democrat”. Mr Kirchner has sought support to the left of his party. Mr Bonasso says that a new party might be launched by 2007, spanning these outside groups and the Peronist left. That would mean, sooner or later, taking on Mr Duhalde, who is biding his time in the hope that Mr Kirchner's popularity will fade.

But others see the president as a quintessential Peronist. Mr Berenzstein points out that all the movement's leaders have sought allies outside the party, as a way of increasing their grip over its feuding factions. And rather than moving to create a modern civil service, capable of delivering effective public services, Mr Kirchner himself talks of resurrecting some of the economic roles of the pre-1989, failed, state.

Mr Kirchner's presidency may provide answers to the broader question of where Peronism is going. Some think it is moving towards formal hegemony, as exercised by Mexico's Institutional Revolutionary Party for seven decades until its defeat in 2000. Others foresee “the final crisis of Peronism”, in the words of

Elisa Carrió, a popular former Radical. “Society is tying itself to what's left of the old power structures before going to something new,” she says. She foresees a new opposition emerging from civic groups, neighbourhood movements and her own embryonic party. Who proves right will depend in part on how well Mr Kirchner handles the economy.

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The insouciant debtor

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Time to deal with the unpaid bills

ECONOMIC analysis in Argentina today is a bruisingly ideological matter, conditioned by disagreements over the causes of the collapse. Some see the current recovery as ephemeral, resulting largely from the soya boom. They accuse the government of abandoning the reform agenda of the 1990s and failing to repair the numerous breaches of contract caused by the devaluation. Mr Kirchner “hasn't confronted any of the problems. We devalued to save the same fiscal and labour-market institutions that led us to crisis,” says Ricardo López Murphy, an orthodox liberal who came third in last year's presidential election.

Others see Convertibility as a costly straitjacket that the country did well to wriggle out of. The economy has recovered “because, finally, after ten years, producing tradable goods is profitable again,” and because “macroeconomic policy is the most orthodox in 50 years,” says Javier González Fraga, a former central-bank governor. Certainly the main aggregates look healthy enough. Inflation is running at 3-4%; interest rates are low; and thanks partly to windfall taxes on exports, the public finances showed an unprecedented primary surplus (ie, before debt payments) of 3.4% of GDP in the 12 months to March.

Mr Lavagna, the economy minister, urges outsiders to separate Argentina's “stock of crisis”, which he calls a “very high sunk cost” for the country's firms, its people and its credibility, from these “very positive” flows. It is a neat formulation. Arguably, it was right to concentrate on getting the economy growing again before dealing with the bills for the wreckage. Unfortunately, matters are not so simple. Argentina's recent past is rapidly catching up with it, threatening to hobble recovery and hence progress on reducing poverty.

Several broad issues remain partly or wholly unresolved. One is Argentina's economic relations with the outside world, and particularly with the IMF. That includes the debt default. Another is the banking system, which remains in a state of near-paralysis. The privatised utilities are also operating in limbo (see article). Lastly, there is the need to reverse Argentina's chronic fiscal weakness. All of these issues are linked. Argentina needs to decide, first, how big a primary fiscal surplus it can achieve and how it should be spent; and second, how the government should behave towards the private sector.

Take the IMF first. Critics claim it has again caved in to Argentina. A three-year agreement signed in September 2003 was widely seen as generous, setting a fiscal target of a primary surplus of 3% of GDP in the first year, compared with Brazil's 4.3% and Turkey's 6.5%. Officials retort that Argentina's situation is different. The government is spending 1.5% of GDP on the transitional cost of its radical pension reform. And unlike Brazil and Turkey, it is receiving no new money from the IMF or the World Bank. The Fund has agreed to lend Argentina only what the country is due to repay to it over the next three years, a total of $12.5 billion. Indeed, in 2002-03 the government made net repayments to international financial institutions totalling $6.6 billion.

A fund of disagreement

But the most important difference is political. When George Bush's administration took office in 2001, it initially disapproved of the IMF propping up emerging-market governments. It changed its mind when Argentina's default and collapse threatened to contaminate the rest of South America in 2002. Since then, it has worked hard to avoid being blamed for any further turmoil. The IMF itself has much at stake: its lending to Argentina makes up 15% of its total loans. Cutting the country off would mean acknowledging huge bad loans. All this gives Argentina leverage.

But Mr Kirchner's truculence has won him few friends abroad. His government refused to start serious negotiations with its bondholders, and he played a game of brinkmanship with the Fund itself, refusing to make payments to the IMF without assurances that the Fund would pay up in return. The United States

has since joined its G7 partners in pressing Argentina to strike a deal with its creditors.

Some believe that a turning point has been reached. Since March, Mr Kirchner has adopted a less abrasive stance towards the Fund; his government has appointed four investment banks to advise on the debt negotiations, and has held a preliminary meeting with bondholders. But there will be plenty of further argument.

The cost of pesification

The debt talks are more complex than previous sovereign restructurings, involving 152 different bonds under eight different legal jurisdictions. The bondholders range from Japanese pensioners to New York "vulture" funds, as well as Argentine institutions. Moreover, Argentina's public debt has swelled since the collapse (see table 4). To compensate banks and depositors for Mr Duhalde's "pesification", the government issued new bonds called BODENs. It says it will honour these, together with its loans to international financial institutions and "guaranteed" loans that Mr Cavallo foisted on Argentine banks and pension funds in 2001.

Debt mountain 4

Total debt, $bn

Debt in default		Dec 2001	Dec 2003
Bonds:	- principal	61.8	81.2
	- interest	–	13.8
Other		7.9	7.3
Subtotal		**69.7**	**102.3**
Performing debt		**Dec 2001**	**Dec 2003**
IMF + other multilaterals		32.4	32.0
Guaranteed loans + bonds		42.3	22.6
BODENs*		–	17.3
Other		–	2.5
Subtotal		**74.7**	**74.4**
Total debt		**144.4**	**176.7**

*Bonds compensating banks for pesification

Source: Ministry of Economy

That means, Mr Kirchner maintains, that the government can offer holders of the defaulted bonds only 25% of their face value. In net-present-value terms, that amounts to just 10 cents in the dollar, say outraged bondholders. They want at least 75 cents. That may not be an unbridgeable gap. Argentina will now "make [its offer] more precise," says Mr Lavagna. "The idea is to do a bit of financial engineering to make it as attractive as possible within the limits of the Argentine situation." In net-present-value terms, the offer will be "not less than 25%".

The government insists it will not borrow more to repay the debt, nor will it agree to do a deal that it cannot be sure of honouring for years to come. It also says a primary surplus of 3% is a ceiling for future years. The IMF considers it a floor. The agreement commits Argentina to "a rising trend", says Anoop Singh, the IMF's chief for the western hemisphere. The longer the talks drag on, the more likely it is that creditors will turn to the courts (so far only three have filed suits in New York). However, Argentina does have incentives to settle. "Problem number one is the debt. Not settling it is delaying many other things," says Mr González Fraga. Without a deal, he says, the country's bigger companies will be unable to raise money and the government cannot implement tax reforms. And uncertainty will continue to hang over the banks.

Two years ago, many banks in the centre of Buenos Aires, besieged by angry depositors, boarded up their frontages. Now, outwardly everything has returned to normal. The freeze on deposits ended a year ago. Deposits have flowed back and now stand at 90 billion pesos, compared with 80 billion before the collapse. But the financial system is acting as little more than a piggybank. Things have improved, concedes Mario Vicens of the Argentine Banking Association, which represents foreign banks with branches in the country, but not yet enough to ensure the normal operation of the financial system.

The main problem is on the banks' asset side. Nearly half their operating assets are in government paper (some of it Mr Cavallo's "guaranteed loans", the rest the bonds issued to compensate for pesification). This debt, though in good standing, has been issued by a government in default, so nobody knows what its real value might be. And it pays a low interest rate: 3.5% plus inflation.

A second source of uncertainty is a number of injunctions issued by the courts to savers who demanded that their dollar deposits be paid at the market exchange rate, rather than the rate decreed by the government of 1.40 pesos to the dollar, plus inflation. Honouring these injunctions has so far cost the banks an extra 7 billion pesos. The Supreme Court is due to rule whether pesification was legal.

The Central Bank reckons that the banks should treat the excess paid to depositors who won injunctions as a loss, which it will allow them to write off over five years. It has also given them time to increase their capital base. At the end of 2001, the banking system's net worth was $16 billion. Today it stands at $8 billion—provided government bonds are worth their face value. "Since we didn't have money, we had to offer time," says Alfonso Prat-Gay, the central-bank governor. "There's still a lot to be done, but the

ball is now in the banks' court.” In other words, they will have to start lending again.

The Central Bank's rules are reasonable, says Mr Vicens. But the banks face a long road back to profitability. At least the system is now roughly breaking even, after losses of 16 billion pesos in 2002 and a further 4 billion pesos last year. Only a handful of banks have closed their doors. A new crop of regional private banks are expanding—as are two big and poorly managed state-owned banks, perhaps sowing the seeds of the next financial crisis.

Banks and borrowers are still proceeding with caution. Most deposits are short-term, which limits the scope for long-term lending. Loans are starting to grow again, but so far most of them are short-term consumer credits. Today, Argentina is a cash economy: credit to the private sector amounts to only 8% of GDP. Miguel Kiguel, an economic consultant, thinks the banking system could return to solvency over the next five years—but only if deposits and loans go on rising, the economy grows by at least 3% a year and the government continues to service its debts to the banks.

Fiscal errors

The debt burden means the government has no margin for fiscal error, a lesson that the collapse of 2001-02 may have driven home. Mr Singh of the IMF is cautiously optimistic on that score: “I don't think the Argentine population will tolerate high fiscal deficits and inflation any more. There may have been a culture shift.” To make sure, the IMF wants the revenue-sharing arrangements with the provinces to be reformed, but that may prove difficult. To comply with the IMF agreement, Mr Lavagna duly sent a bill to Congress in March, but it merely guarantees provinces the same money they got last year and suggests that any excess should go to poorer and more efficient provinces. Miguel Angél Broda, an economic consultant, thinks this does not go nearly far enough. “We're taking a bonanza year and extrapolating it for ten years. It's missing a historic opportunity to reform the relationship with the provinces,” he says.

Yet the bill's authors may have gauged the political temperature correctly: even this mild draft was immediately howled down by several provincial governors. Under the constitution, changes in revenue-sharing must be approved by every province as well as by the federal Congress, so the IMF should not hold its breath.

In fact, since the Menem reforms, government spending has not been egregiously high. The problem is that the government spends badly and fails to collect enough taxes. A more promising approach may be to reform the tax system, and ensure that taxes are actually paid. Mr Lavagna says that his priorities for this year, along with revenue-sharing reform, include lowering taxes on investment and cracking down on evasion. In this area, too, establishing the rule of law is essential.

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An unloved policy

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But privatisation was nowhere near as bad as its critics claim

THE policy perhaps most closely identified with Mr Menem's governments was wide-ranging privatisation. The oil, electricity, telecoms, water and airline companies were sold, and private companies hired to run airports, trains and roads. Its critics say that it was poorly regulated and sometimes corrupt, that the privatised firms reaped exorbitant profits, and that many jobs were lost.

The job losses reflected the grossly inflated payrolls of the state firms. But some of the other charges seem well-founded. In telecoms, for example, Mr Menem set up two private monopolies, run by Spain's Teléfonica and Telecom Italia respectively. Charges came down, but not as much as elsewhere. According to Daniel Aspiazu of FLACSO, a graduate school, these firms loaded the balance sheets of their Argentine subsidiaries with debt to send money to their head offices before the devaluation. If they did, that was not illegal. Indeed, Mr Kirchner did something similar: in 2001 he prudently sent Santa Cruz's reserves to a Swiss bank, where they remain.

There were other flaws. In some industries, tariffs were fixed in dollars and indexed to inflation in the United States, even though Argentina was suffering deflation. Water firms initially charged high connection fees to the poor. Sometimes privatised firms “captured” the regulators: the man who organised airport privatisation went to work for the winning bidder and then became the regulator, says Mr Aspiazu.

But taken as a whole, privatisation transformed Argentina's infrastructure. That was especially true in the energy sector, which in the decade to 2001 had $70 billion invested in it. The wholesale cost of electricity was halved, and leakages were cut from 30% to 10%. Argentina turned from an importer to an exporter of energy. Access to safe water got better.

Now that progress is in jeopardy. Two years ago Mr Duhalde switched the privatised companies' tariffs to pesos and froze them, pending renegotiation of their contracts. Two have had their contracts rescinded. One was an Argentine group, linked to a political opponent of Mr Kirchner, that had bought the post office but allegedly failed to invest in it. Last month, the government reached interim accords with a water company and the telecoms firms. The others remain in suspense: they cannot renegotiate their defaulted dollar debts until they know what rules they will operate under.

For most of the utilities, the frozen tariffs cover only their operating costs, so investment has stalled. In energy, for instance, demand has grown as the economy has expanded. This has resulted in widely predicted shortages. The government has belatedly agreed to increase gas and electricity tariffs, but the energy market will take a couple of years to return to normal. Meanwhile Mr Kirchner has launched a plan for new state gas and electricity companies. That looks like a backward step.

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Use your brains

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Business in Argentina must capitalise on its natural advantages

AP

new wine, new bottles; it takes more than two to tango

IT IS a public holiday, the day of the Malvinas, marking the moment in 1982 when Argentine troops briefly raised their flag in Port Stanley. But at the Zuccardi family winery, at the foot of the Andean cordillera half an hour from Mendoza, everybody is busy. Teams of workers pluck dense clusters of grapes from the vines; others unload them at the bodega, where new machines separate the fruit from the stalks.

The Zuccardis' enterprise embodies the strengths and weaknesses of Argentine business today. Until Mr Menem opened up the economy, the wine industry had been inward-looking: it produced large quantities of plonk for the local market and relied on government-imposed production controls for its profits. In 1987, exports totalled just $6m, or 1% of output. Last year, Argentina exported $170m-worth of wine and $62m-worth of concentrated grape juice, adding up to 12% of output.

The Zuccardis were among the first to go for the export market, in 1992; last year 60% of their total sales of 45m pesos were abroad. José Alberto Zuccardi says his objectives are “quality and innovation”. His company already sells wine made from nine different grapes, including tempranillo, syrah and viognier as well as Argentina's traditional malbec, and is experimenting with ten more varieties.

Argentina should be a wine giant, and perhaps it soon will be. It has plenty of suitable and empty land, as well as a large local market, which has made it the world's fifth-largest producer and seventh-largest consumer of wine. All the top names in the world's drinks industry have bought or set up Argentine wineries. Since the late 1990s, up to $1 billion has been invested in 130 new bodegas and 35,000 hectares of new vineyards, says Enrique Thomas of the National Wine Institute, an industry body.

But local producers such as Mr Zuccardi can get no long-term credit; the only way they can expand is by reinvesting profits. Transport is difficult and expensive. Mendoza has poor road and rail links to Buenos Aires, over 1,000km away; Valparaiso in Chile is only 550km, but by a road over the Andes that sometimes gets blocked by snow in winter. And marketing is well behind: a campaign to promote Argentine wine has only just been launched.

As for wine, so for many other food products. Farming remains the vital heart of Argentine business. If farmers are now doing well, it is not just because of high world prices; it is also because they spent a lot on modernisation in the 1990s. The annual grain harvest, for example, rose from 40m tonnes to 70m tonnes in the past decade. That was partly because more land was taken into cultivation, but also because yields per hectare rose by some 17% over this period, according to the Rural Society, a farmers' lobby.

Argentine farmers have always been quick to respond to market prices by switching crops. Soya production, for example, has doubled in four years. They are also innovative: almost all soya is now grown from GM seeds, which cuts costs by $40 a tonne, reckons Alejandro Elzstein of Cresud, a farming and property company. They have managed to compete successfully with rich-country farmers who receive large subsidies, despite the windfall tax of up to 23% that the government slapped on exports after the devaluation.

Many non-farming businesses are less well placed. If few people can name an Argentine multinational, that is because there are only two of them: Arcor, a chocolate maker, and Tenaris, a steel-pipe maker. Volatility and lack of credit are murderous for business. But there are a few well-hidden strengths.

Convertibility forced businesses of all kinds to modernise or die. Many died, especially in manufacturing. The successful ones used the strong peso to buy in modern technology. They include a wealth of medium-sized companies, some of which are doing well. Jorge Forteza, the rector of San Andrés business school, cites car-parts makers such as Basso and Edival, who are supplying motor valves to Ferrari. There is a small but growing software industry. And since the devaluation, Argentina's multinational-owned car plants have been assigned some niche models for export .

There is also a new generation of entrepreneurs. Take Jessica Trosman, a young fashion designer. In an ordinary-looking workshop off Avenida Corrientes in Buenos Aires, she produces a collection based on her patented technique for applying plastic beads to fabric. She sells to Harvey Nichols, an upmarket British fashion store, as well as to shops in New York and Japan, and has two boutiques in Buenos Aires. Her turnover last year was $1m, and she expects 30% growth this year.

Another example is Alejandro Pitashny, a young investment banker. In 2002, with two friends, he set up José, a brand of gourmet teas. With sales to airlines and London department stores, the company is already profitable.

Devaluation has also brightened the prospects for some service businesses. Tourism is booming, especially in Buenos Aires and Patagonia. Thanks to the modernisation of the telecoms networks after privatisation, 15,000 Argentines now work in call centres, many of them handling queries from across Latin America.

Lessons to be learned

One of Argentina's biggest business advantages is that its people are better educated than the average Latin American. But the country's educational system, once famed, is not what it was. Mr Menem's devolution of education to the provinces was a good idea in principle, but it has caused standards to diverge widely. Richer provinces now spend up to twice as much per pupil as poor ones.

Only 60% of children finish secondary education, partly because of poor teaching. “We've neglected the training and working conditions of teachers,” says Mr Filmus, the education minister. He is using his newly expanded budget to buy more textbooks and help poorer schools. The failings of secondary schools bear directly on unemployment and social problems: companies demand skilled workers but get unskilled ones instead. Mr Zuccardi's firm has set up its own schools to give its workers the chance to complete primary and, soon, secondary education.

Universities have problems, too. Lots of young Argentines embark on a university education, but many drop out. Only 5% of those aged 25-54 are graduates, compared with 15-20% in rich countries, says Guillermo Jaim Etcheverry, rector of the University of Buenos Aires (UBA). Four out of five students also hold down jobs, which helps to explain the high drop-out rate.

Quality, too, is under pressure. The UBA has a proud scientific tradition, having produced all three of Latin America's Nobel-prize winners in science. But it is struggling with 300,000 students on a basic budget of $100m; in Brazil, the University of São Paulo, with only 73,000 students, has a budget of $440m, says Mr Jaim Etcheverry. Even so, the UBA has niches of excellence in science, medicine and engineering.

Yet research by the World Bank shows that Argentina gains far fewer patents and publishes far less in scientific journals than do other economies with a similar income per person. It also invests little in research and development. The Bank blames a lack of collaboration between universities and firms, as well as insufficient “financial depth” (ie, credit) and intellectual-property protection.

More encouragingly, the Bank also says that Argentina has been good at innovating in farming, food processing, and some chemical products and electrical machinery. That is something to build on.

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The opera and the tango

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Argentina needs to look for models in the right places

THE Teatro Colon, Buenos Aires's great opera house, is a microcosm of Argentina's history. Begun in 1895 by a private company that went bust, it was finished by the city government in 1908, at the height of the Belle Epoque. It is twice the size of Milan's La Scala, with six tiered balconies decked out in gold leaf and a lobby modelled on the Hall of Mirrors at Versailles. It is part of Argentina's notable musical tradition: as well as the tango, the country also produced Daniel Barenboim and welcomed many European musicians fleeing Hitler. In recent decades the Colon limped on, plagued by over-mighty trade unions, corruption and waste. In 2000, strikers took to the stage during a performance. The director died of a heart attack and the season was cancelled.

Since 2001, however, the Colon has undergone a renaissance. Pablo Batalla, the new director, has a background in economics rather than in the arts. He imposed a new contract on its staff, eliminated a $3m annual overtime bill and cracked down on corruption. The number of performances has risen by 45% and attendances have doubled. “Opera needs discipline,” he says. “Everything was improvised.”

The city pays the salaries of the Colon's 1,500 staff (including a full orchestra, an opera and a ballet company), at a cost of 30m pesos a year. Mr Batalla reckons that is good value. The price of the average ticket has been cut from 60 pesos to 19, with very cheap tickets for the unemployed. Four out of every five foreign tourists visit the place, if only for the guided tour. The Colon used to run an annual deficit of 10m pesos, but now it covers all its variable costs from ticket sales, sponsorship and sales of scenery abroad. Mr Batalla sees the opera house as a “national symbol that connects us with the western tradition and with the best of what European migration left us”.

The Colon's revival carries two main messages for the new Argentina. One is that it is dangerous for the country to turn its back on the world. Mr Menem made big mistakes, but he also got some big things right. One of those was opening up Argentina's economy, even if Convertibility and the strong peso made that more painful than it need have been.

Is Mr Kirchner the man to reconnect Argentina to the world? The evidence is mixed. His home province, Santa Cruz, is both physically and spiritually remote from Buenos Aires. Like many Argentine politicians, Mr Kirchner has travelled little outside his country: he first visited Brazil a few weeks before his election, and Europe a month or so after it.

However, he has avoided rupture with the IMF. When faced with energy shortages, he also belatedly backtracked from the tariff freeze—but only after ordering a unilateral 15% cut in exports of gas to Chile, whose president was a loyal ally, thus casually jeopardising a decade's progress on energy integration in Latin America's southern cone.

If parochialism is one danger, another is for Argentina to be distracted by its past. It does have strong cultural links with Europe, and it did briefly ascend to the league of rich countries, but that was largely accidental and long ago. Since 1930, its politicians have continued to behave as though it were still rich. That has encouraged populism and bred delusions of grandeur, exemplified by the 1982 invasion of the Falklands, and even by Mr Cavallo's attempt to ape the gold standard with Convertibility.

Try the neighbours

Argentina should look closer to home for models. For better or worse, it is a Latin American country, home of the tango (which originated in brothels and gauchos, even if it was later Italianised) as well as of the opera. And it has been overtaken not only by Italy and Spain (thanks to the European Union) but also by Chile.

In the 1990s, some Argentines began to see their future in Mercosur, the putative customs union linking them with Brazil, Paraguay and Uruguay. This has a role to play, especially in political co-operation and (*pace* Mr Kirchner) energy and transport integration. But sensibly enough, Argentina is now seeking to broaden its trade relations. Martín Redrado, the trade secretary, is working on half a dozen separate trade talks, with China and India as well as with the EU, and including the tricky negotiations for a Free-Trade Area of the Americas. Over the past two years he has led 27 trade missions abroad. Argentina would benefit hugely from an end to rich-country barriers to farm trade.

It is not only Chile's open trade that offers a model to Argentina. It is also its much greater respect for the rule of law, and its more effective state. As this survey has argued, Argentina's underlying challenge is to create a society ruled by law rather than by corruption, clientelism and populism. It needs to reconstruct its public administration so that it provides the services its people have a right to expect. Those include infrastructure, in which public as well as private investment is needed. Argentina is a vast country, hobbled by poor transport links. But another big thing that Mr Menem got right was deregulation. The government must let private business get on with the job of creating wealth and jobs.

Some of this requires long-term thinking, which is in short supply in Argentina today. But some of it needs acting on right away. Argentina currently has a great opportunity. Its people have found that they can force the politicians to mend their ways. The present recovery could easily turn into sustainable growth. But this can happen only if Mr Kirchner gives clear signals, by his handling of the debt and the privatised companies, that private investment and enterprise are welcome in Argentina. Those signals need to come in the next few months. Otherwise the roller-coaster will plunge sickeningly downhill once again.

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Marks & Spencer

Buying the store

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Reuters

A takeover battle for a venerable British institution has the nation of shopkeepers all a-quiver

"PHILIP GREEN is a likeable guy and a good retailer," says Stuart Rose, who this week suddenly took over as chief executive after a boardroom rout at Marks & Spencer (M&S), an iconic British retailer which Mr Green wants to buy. The problem for Mr Green is that Mr Rose is a good retailer too, and his arrival at the struggling company, which was once admired around the world, strengthens its defences against his unwelcome takeover attempt. After much speculation, on June 3rd Mr Green made a £9 billion ($16.5 billion) bid. M&S's board promptly rejected it.

So Mr Green may need to offer much more if he is to succeed. The surprisingly low bid was combined with several onerous conditions. As a result, investors, who had got their hopes up, also greeted it with scepticism.

Mr Green has had his eyes on M&S for a while. He first planned a bid in late 1999, but for various reasons withdrew early the following year. By then, the 100-year-old chain of stores had begun to stumble. Its sales slumped and pre-tax profits halved.

The problems at M&S have been twofold. Like other general retailers in America and Europe, it is facing ferocious competition from supermarkets moving into non-food lines and from speciality retailers, such as America's Gap and Sweden's H&M, in the casual-fashion market. But M&S also inflicted injury upon itself and as a result was unable to fulfil its past role as a purveyor of top-quality clothing. Its fashion lines became frumpy and, as many British mothers will attest, its clothes for children were more likely to come apart at the seams than those from Asda, the British subsidiary of America's mighty discount retailer, Wal-Mart.

M&S has been struggling to fix these problems. It brought in Vittorio Radice, who had revived Britain's Selfridges department store, to develop Lifestore, a new line of home furnishing outlets, and it got George Davies, who developed the George brand for Asda and Wal-Mart, to create a range of clothes for younger women. Yet sales growth has remained sluggish.

St Michael and St Philip

What M&S needs, reckons Mr Green, is the sort of solid retailing skill that he could provide. His first big break in the rag trade came in 1985 when he sold the Jean Jeanie chain he had bought for £65,000 to Lee Cooper for a reported £3m. Most recently the controversial businessman has built up two other British retailing groups. He transformed Bhs (a general retailer not unlike M&S), which he bought in 2000, and in 2002 he purchased Arcadia, where he has boosted profits from its variety of high-street clothing chains, such as Top Shop and Dorothy Perkins. But even for a billionaire with a home in Monaco, a bid for M&S is a bold move.

To pull it off, Mr Green needs the City, as London's financial district is known, on his side. His present companies are held privately, but his offer provides for 25% of a newly acquired M&S to remain a publicly listed firm. So he has gathered a number of powerful financial firms to help back his bid, which is made up of a mixture of cash and shares, as well as to bolster his standing. Lord Stevenson, who is chairman of both HBOS, a big bank, and Pearson, a media group which owns the *Financial Times* (and through it, half of *The Economist*), would become a senior non-executive director of Mr Green's new company. But the new interim chairman of M&S, Paul Myners, is also a leading member of the City's great and good, a sign that institutional shareholders will be heavily wooed by both sides. Mr Green knows he can do little without their support. In 1992 institutional investors forced him to quit as boss of Amber Day, another retailer, after its share price plunged.

Mr Green would try to revitalise the core M&S brand. There would also be cost savings—central staff levels are high. And he would tackle the supply chain. That may not mean wringing more cost out of the system—a strategy that did no good when tried before—but, rather, making it more responsive to fashion trends and better able to seek out high-quality goods at good prices. There has been talk of reviving M&S's once-famous St Michael label, which in earlier days was sewn into the underwear of nearly everyone in Britain.

Rumours of a likely bid had made M&S's non-executive directors jittery. They came under pressure from institutional shareholders to put new leadership in place before Mr Green could. Though Mr Rose had made no secret of his desire to get the top job at M&S, he did not seem to be in the running until this week. And then suddenly Luc Vandevelde, the firm's chairman, and Roger Holmes, its chief executive, were swept aside by the board and Mr Rose was brought in. Mr Rose quickly began to install his own management team and sack some of M&S's advisers, and to replace them with his own choices.

Mr Rose's career has included a 17-year stint working for M&S. And, like Mr Green, he too has a string of retailing successes under his belt. He has returned to M&S, he says, in order to rebuild the business to its “former glory”, not simply to sell it to someone else. That remains to be seen. Mr Rose has defended retail businesses from hostile takeovers in the past, but he has also sold them—including, take note, Arcadia to Mr Green.

It was Mr Rose who turned what was a motley collection of high street brands into Arcadia, and although he initially defended the company vigorously against a bid from Mr Green, eventually he capitulated. Some of the people Mr Rose is now gathering around him are veterans of that battle and so may have some idea of how their opponent will operate.

But Mr Green will also have a good measure of the man he must deal with. Indeed, Mr Rose was among several hundred celebrities who attended Mr Green's lavish 50th-birthday bash in Cyprus two years ago. As two of the nation's top shopkeepers, both men seem well-suited to the challenge of reviving a faded British institution. Investors must now decide whom to place their money on.

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Another one bites the dust

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From The Economist print edition

Sumner Redstone wins his power struggle with Mel Karmazin

MEL KARMAZIN, who this week resigned abruptly as president and chief operating officer of Viacom, the world's second-biggest media firm, is revered on Wall Street for his financial discipline in an industry prone to excess and foolish deals. But in the end he was no match for Sumner Redstone, the 81-year-old who controls the firm with 71% of its voting stock. Mr Karmazin, 60, failed to kiss the ring of Mr Redstone often enough, and behaved too much like a replacement. At Viacom, as at News Corporation and Disney, long-established moguls do not want to cede power to younger executives. For now, as Mr Karmazin's sudden departure shows, the old men are still on top.

Mr Redstone will never give up the influence he now wields at Viacom while he is still the controlling shareholder, grumbled Mr Karmazin after resigning—even if he steps down as chief executive in three years, as he promised to this week. Relations between the two men had deteriorated badly; Mr Karmazin communicated his decision to leave via an intermediary, and did not talk to Mr Redstone about it. Neither is he thought to have got on particularly well with the boss's daughter, Shari Redstone, who has taken on a more prominent role at Viacom of late.

Bad relations with the family did not matter so much while Viacom and its president were stockmarket darlings. But the firm's share price has fallen by 35% over the past three years, underperforming the media sector by 14%. This had weakened Mr Karmazin's position. The radio business, where he made his reputation, has been a particular disappointment.

Two men will take his job: Tom Freston, now head of MTV Networks, which includes the music channel, and Leslie Moonves, now head of CBS, its broadcast television group. Both are well regarded, and one of them is likely to take over as chief executive later, Mr Redstone said this week. Meanwhile, they will presumably be too busy competing with each other to challenge him much. At News Corporation, Rupert Murdoch, 73, has similarly set up his sons Lachlan and James as rivals to one another. The difficulty with succession at big media companies, says Peter Kreisky of the Kreisky Media Consultancy, is that younger executives let their assertiveness get the better of them, draining attention from the older man.

Mr Redstone says that Viacom will review its position in each of its industries. It may quit radio. Big acquisitions are out of the question while the share price is low, he says. The firm will buy back its shares in large quantities once it has finished selling its 81% stake in Blockbuster, a home video chain. Other challenges loom. Without Blockbuster, says Harold Vogel, an entertainment industry analyst, half of Viacom's sales will come from advertising—more than at its rivals. Investors worry that people will skip commercials using personal video recorders, which employ new technology that makes this easier, and that advertisers will shun TV as a result.

An obvious next job for Mr Karmazin is that of boss of Disney, a position occupied by Michael Eisner for the past 20 years. Mr Eisner has retained power, even though 45% of the firm's shareholders withheld their votes for him at the firm's annual meeting in March. Disney is now performing well, at last: profits leapt by 71% in the latest quarter. This week, after Mr Karmazin resigned, its chairman, George Mitchell, reaffirmed his confidence in the firm's current management. But if Disney's fortunes should again take a turn for the worse, its board may find it hard to ignore the fact that Mr Karmazin is available.

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Fiat

The problems of succession

Jun 3rd 2004 | ROME
From The Economist print edition

Whither Fiat after Umberto Agnelli?

Get article background

DEATH and defection: troubles do not come singly at Fiat, Italy's struggling carmaker. On May 30th, only three days after Umberto Agnelli, the group's chairman and head of Fiat's founding family, died unexpectedly, Giuseppe Morchio, chief executive since February last year, tendered his resignation. Even as thousands of mourners filed past Mr Agnelli's coffin, Mr Morchio had been pushing his case to be chairman, and to remain chief executive as well. The family, which owns about one-third of Fiat's shares, rebuffed him and, at a hastily convened board meeting, appointed Luca di Montezemolo to the post Mr Morchio coveted. “He got above himself,” said a close adviser to the Agnellis of Mr Morchio's bid for power.

Unlike Mr Morchio, Mr Montezemolo has been a member of the Agnelli court for many years and was a particular favourite of Mr Agnelli's older brother, Gianni, who died in January last year. In taking on Fiat's chairmanship, a move he describes as a matter of duty, he faces a huge task. Even so, Mr Montezemolo is adding that job to the weighty burdens of the chairmanship and managing directorship of Ferrari, Fiat's high-performance car subsidiary and Formula One business, as well as to the chairmanship of Confindustria, the employers' confederation, that he took over on the day Umberto Agnelli died.

AFP

The bad news never ends at Fiat

Mr Montezemolo will not be alone at the top. With Mr Morchio gone, Fiat's board made Sergio Marchionne chief executive. Little known, despite being on Fiat's board for a year, since February 2002 Mr Marchionne has run Société Générale de Surveillance, a Swiss firm in which the Agnellis have a stake, which provides technical inspection and certification services.

Fiat had seemed to be stabilising after a series of upheavals. In June 2002, Paolo Cantarella, the chief executive and a long-serving Fiat-man, was pushed out to make way for Gabriele Galateri, a close associate of Umberto Agnelli in IFI and IFIL, the family's investment firms. But he lasted only five months and his successor, Alessandro Barberis, even less. Fiat now has its fifth chief executive in two years and, in Mr Montezemolo, its third chairman—a sapping rate of management attrition for a group whose finances have been haemorrhaging since 2000. The group lost €1.9 billion ($2.1 billion) last year, after net losses of €3.9 billion in 2002 and around €400m in 2001. But the revival plan that Mr Morchio presented last June promised break even at operating level this year and break even on the bottom line in 2005.

How long will Mr Marchionne survive? Market forces and the deadlines for results press relentlessly. New models, such as a fresh version of the low-priced Panda, brought some relief in the first quarter of this year, boosting sales and cutting operating losses. But net financial indebtedness increased from €3 billion at the end of last year to €4.4 billion. Fiat must continue investing heavily to maintain a flow of new models.

The stockmarket greeted the new team on June 1st by lifting Fiat's share price by 4.5%. As Ferrari's results have shown, the strength of Mr Montezemolo, a wizard at public relations, lies in his ability to get people to work together. Whether he has the mettle to head a large industrial group is unclear, however, and the choice of a chief executive whose experience is more financial than industrial raises many

questions. But by choosing Mr Marchionne, Fiat has avoided the conflicts that might have arisen had Mr Morchio stayed. He had different ideas from Mr Montezemolo, not least about Fiat's luxury car business.

Among the issues awaiting the new team is a put option under which Fiat can supposedly oblige America's General Motors to acquire Fiat Auto, the most struggling part of the group. GM reckons it already has sufficient grounds to escape this legal obligation (Fiat says otherwise), but much-discussed possible changes to the ownership of Alfa Romeo, one of Fiat's marques, would strengthen its case.

Several of the group's jewels—Toro Assicurazioni (an insurer), FiatAvio (in aerospace), Fiat Engineering and a direct stake in Edison (power)—were sold under Umberto Agnelli and Mr Morchio. Further sales seem likely—not least to address the €3 billion convertible made to Fiat by a group of Italian banks in May 2002, whose repayment falls due in September 2005. Conversion of the loan into shares would dilute the Agnelli family's stake to around 22%; the banks would become Fiat's biggest shareholder, with around 27%.

Arguably the greatest uncertainty concerns the future role of the family. Making Mr Montezemolo chairman while appointing John Elkann, Gianni Agnelli's 28-year-old grandson, vice-chairman, and putting Umberto Agnelli's 28-year-old son, Andrea, on the board was interpreted as a sign of the family's determination to stick by the group. The process of decision-making after Umberto's death, described as “feudal” by Carlo De Benedetti, a leading Italian businessman, certainly seemed to reflect traditional family capitalism. But when Umberto headed IFI and IFIL he argued that the stake in Fiat should have to perform and be judged just like any other investment in the portfolio. Will the new heads of the family think likewise?

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French industrial policy

A smaller national champion

Jun 3rd 2004 | PARIS
From The Economist print edition

Lagardère and the battle between France and the European Union

AFTER more than 20 months of tortuous discussion, the immediate fate of at least one of France's national champions has been decided. Lagardère, a huge media to missiles group, will not become Europe's biggest book publisher—though it will remain France's largest publishing group by far. Under orders from European Union (EU) trustbusters, on May 28th Lagardère sold Editis—some 60% of Vivendi's former publishing arm, which it had bought in 2002—to Wendel Investissement, an investment firm.

In the circumstances, Lagardère is not too unhappy about the deal. It sold Editis to a firm that, though pledging to spend €300m to become the "biggest French publisher," in reality is unlikely to pose much competitive threat. Wendel, an investor in a ragbag of firms, has never dabbled in publishing, and lacks obvious options to expand its new acquisition. But the deal should helpfully cement good relations between Wendel's chairman, Ernest-Antoine Seillière, who, as boss of the employers' association, is a force in French business, and Arnaud Lagardère, boss of the family firm. The firms expect Brussels to approve the deal within three weeks.

Lagardère would have liked to keep all of Vivendi's publishing assets, sold when the once-stellar firm fell to earth. Arnaud, son of the flamboyant Jean-Luc Lagardère who died unexpectedly last year, has big ambitions in the media. In the next 15 years he wants to stop making missiles (the firm owns 15% of EADS, the European Aerospace Defence and Space group) and turn Lagardère into one of the world's top three media groups. Jean-Luc built up the world's biggest magazine business, Hachette Filipacchi Médias, with over 200 titles ranging from *Elle* and *Télé 7 Jours* to *Paris Match*. He also hoped to create Europe's biggest book publisher by adding Vivendi Universal Publishing to Hachette Livre in the summer of 2002.

Naturally, the French government backed this grand plan, despite its monopolising consequences at home: it was needed to stop Le Robert's dictionaries and Plon, the publisher of de Gaulle's memoirs, falling into foreign hands. Jean-Jacques Aillagon, the culture minister at the time, said that potential (American) acquirers of Vivendi's publishing business were "asset-strippers" and "bone-pickers."

But the trustbusters in Brussels said the purchase of the Vivendi assets could only go ahead if Mr Lagardère agreed to resell chunks of them as soon as possible. Months of discussions followed over how much was enough. Hachette Livre and Vivendi together controlled over half of French paperback sales, 80% of textbook sales and two-thirds of the country's book distribution. Not everyone in France supports its re-energised policy of creating national champions. Led by Gallimard, Le Seuil and La Martinière, France's independent publishers lobbied Brussels to break the Vivendi assets into many smaller, more saleable components. Late last year they celebrated when Brussels refused Lagardère's initial offer to sell one-third of its purchase. Mario Monti, the EU's competition commissioner, only relented when Lagardère offered to sell two-thirds.

It took a further six months to agree on a buyer for 60% of the publishing group. Editis had many suitors, including Gallimard, one of France's most prestigious publishers, which is keen to expand into academic textbooks. Gallimard's paperback division, Folio, and Editis's Pocket complement each other. The two would have been a force in book distribution and a serious competitor to Hachette Livre. That would have delighted Brussels. But Gallimard did not have Wendel's ready cash. And it surely did not help that Antoine Gallimard, boss of Gallimard, had been one of the most outspoken opponents of Mr Lagardère's big buy.

To ensure real competition in French publishing, Lagardère should not have been allowed to buy any significant chunk of Vivendi's publishing assets. But France prefers national champions to the diversity of

a functioning national market.

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Beer in China

The beers are on Anheuser

Jun 3rd 2004 | HONG KONG
From The Economist print edition

SABMiller is admitting defeat and dropping its hostile bid for Harbin Brewery

AP

The real winner

VICTORY, of sorts. SABMiller is to drop its $550m hostile bid for Harbin Brewery, China's fourth-largest brewer. The move, expected as *The Economist* went to press, comes after SAB's arch rival, America's Anheuser-Busch, launched a $720m counter-offer for Harbin earlier this week that was recommended by Harbin's management. SAB's relationship with Harbin has soured since the London-headquartered brewer bought a 29% stake in the Chinese group last year. SAB failed to persuade Harbin to end a fierce price war with its rival in the north-east, China Resources Breweries (CRB)—which is 49% owned by SAB.

SAB's decision to withdraw looks wise. Its poisonous relationship with Harbin's management, and tensions with Harbin city officials, would have made it impossible to get any useful business done. And while China is the world's largest beer market by volume, it is also one of the least profitable. Margins are tiny, and—as this bid battle shows—attempts to raise prices and achieve synergies through consolidation are fraught with problems.

At 50 times Harbin's 2003 earnings and 35 times 2004 forecast profits, analysts are calling Anheuser's offer “irrational” and “more about ego than sense”. There are no obvious synergies. Anheuser said this week that if it won, it would not combine Harbin with Tsingtao, China's largest brewer, in which it has a 9.9% stake. And with the world's two biggest beer makers slugging it out in China's north-east, margins will get even thinner. According to insiders, SAB will use the proceeds from selling its stake to Anheuser to help CRB undercut Harbin's already dirt-cheap prices.

Harbin's management have done well from the battle, getting their partner of choice, as have the Hong Kong tycoons behind Global Conduit, an opaque investment vehicle created to sell the 29% stake in Harbin owned by the Harbin city government. It emerged this week that Peter Lo, Harbin's boss, Peter Jeva Au, a director at Harbin, and David Sun, who ran Global Conduit, were all members of China Enterprise Capital, a private fund set up to raise cash to invest in mainland China. This has created much speculation about the impact of their relationships on the bidding process, which has made all three men a great deal of money.

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African telecoms

Vodacom, Vodago

Jun 3rd 2004 | JOHANNESBURG
From The Economist print edition

A surprise exit from Africa's most promising market

MAYBE it was an April Fool's joke. On April 1st Vodacom, a large South African telecoms firm, proudly announced a five-year deal to manage Econet Wireless Nigeria, the west African country's second-largest mobile-network operator. After nine months of due diligence, a “very senior team” would start work in Nigeria. Vodacom talked of spending $200m to revamp operations. Its experience in other African markets (Congo, Tanzania, Mozambique, Lesotho) would be brought to bear in the most populous, lucrative and fastest-growing telecoms market in Africa. Nigeria has been hailed as an example of how telecoms liberalisation can underpin economic development. Its government was said to be delighted at the prospect of more competition and investment.

But this week Vodacom beat a hasty and not very dignified retreat. The board met in Johannesburg at the end of May. Shortly afterwards, Alan Knott-Craig, Vodacom's boss, announced the firm's “amicable” split from its partners in Nigeria. Amicable? Three top executives of his “very senior team” were sacked or resigned. Vodacom has promised to provide technical support in Nigeria for a few more months. But everyone was staying tight-lipped ahead of Vodacom's annual results, due on June 6th.

So why did Vodacom turn tail? Months of legal wrangling had sapped enthusiasm for the project (Mr Knott-Craig was an early sceptic). But the likeliest explanation is fear of corruption. Nigeria is one of the most graft-ridden countries anywhere. A Nigerian newspaper, *ThisDay*, has suggested that somebody paid dubious “brokerage fees” to three local governments while Vodacom was setting up its deal earlier this year. Though the allegations may be impossible to prove, Vodacom fears any taint. The firm is part owned by Vodafone, the world's largest mobile operator, which is based in Britain, and part by Telkom, which is listed in Johannesburg and New York. With its New York listing, Telkom is bound by strict rules against payment of bribes, and risks losing investors as well as being slapped with fines.

The collapse of the deal signals a missed opportunity for Vodacom. The firm, with more than 11m customers, can still claim to be Africa's largest mobile operator. But its two big rivals are delighted. MTN, another South African operator, has had Nigeria almost to itself for several years. It cut prices late in 2003 in anticipation of Vodacom's arrival. Now it faces only tiny rivals again: with over 1.6m Nigerian subscribers, MTN is roughly twice the size of Econet, its closest rival. Nearly two-fifths of MTN's revenue is now from outside South Africa, much of it from Nigeria. The firm's annual results, due on June 10th, should show that figure rising again.

Vodacom's other regional rival, Amsterdam-based Celtel, is also happy. It is expanding too: last week it bought most of a Kenyan mobile-phone operator for $250m. It boasts over 4m customers in 13 small countries, mostly in East Africa, and expects more. “Just 50m out of 750m Africans have a mobile phone, including North Africa. There is room for much more growth,” says Marten Pieters, Celtel's boss. He is looking at West Africa, to Angola especially, but also to Nigeria after Vodacom's retreat. The poor and massive country is in a “very difficult situation”, concedes Mr Pieters, but a market of more than 120m people is highly tempting. Meanwhile, the biggest losers from this week's news are, as always, the people of Nigeria, where diminished competition between operators will almost certainly result in higher prices, a slower expansion of services and even less of a boost to economic development.

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Spyware

A hidden menace

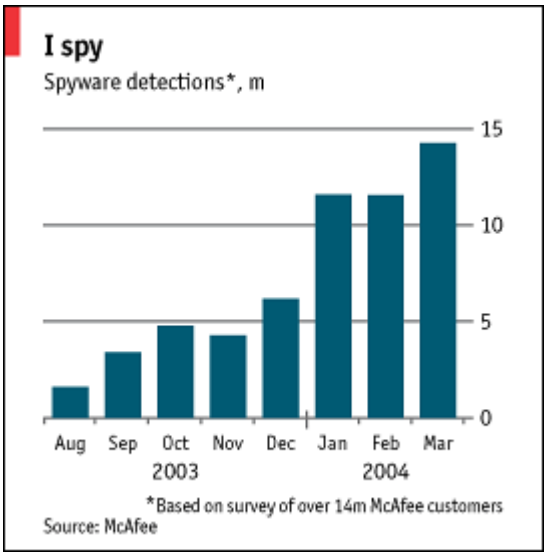
Jun 3rd 2004 | BOSTON AND SAN FRANCISCO
From The Economist print edition

As spam is to e-mail, spyware is to the web. Can it be stopped?

Get article background

VIRUSES and spam get all the attention, but there is another, less visible, threat to internet users that may already be lurking on your computer without your knowledge. “Spyware”, as it is known, is software that sneaks on to your PC, tracks your online activities, and occasionally splashes pop-up advertisements across the screen. It is more than a nuisance: such software is, in effect, hijacking your PC, monitoring your internet use and unilaterally opening browser windows. Some spyware also harvests personal information, such as your e-mail address and location—or even your credit-card details.

The rapid growth of spyware over the past year, and the legal ambiguity surrounding it, has brought it to the attention of regulators and lawyers in America and Europe. This month, a court in Utah will hear a case challenging the first state law that would ban it. Unless the software is stamped out, it could do to the web what spam has done to e-mail: create an annoyance of such magnitude that the internet may become less useful.



The practice is widespread. Spyware that monitors a user's online activities and triggers advertisements in response is present on over 4% of computers, according to one study. The top three spyware firms claim their software is installed on around 100m PCs. Yet most users are unaware it is there. That is because the software is usually installed in a “bundle” with other programs, such as the peer-to-peer file-trading software with which many internet users swap music. Another kind of spyware automatically installs itself when a user merely visits a particular site, a trick known as “drive-by downloading”. Having sneaked on to a PC, spyware applications can severely degrade its performance. Mostly, it is very difficult to remove; some programs are even designed to make removal as hard as possible.

The most nefarious forms of spyware steal information such as credit-card numbers or passwords by monitoring every keystroke a user types. This kind of software is already illegal, and is relatively rare. Much more common, however, is advert-triggering software, produced and distributed by software companies operating in a legal grey area, who prefer to call their products “adware”. There is real money to be made in hijacking screen real-estate and selling it to advertisers: the largest adware firm, Claria, had revenues of $90.5m in 2003 and recently announced plans for an initial public offering.

Though less devious than outright surveillance, this form of spyware can nevertheless harm consumers and online businesses, by diverting users away from the sites they have chosen to visit and by displaying a competitor's site or advertisement instead. Until recently, for example, German internet users visiting the national site for Hertz, a car-rental firm, were, if Claria software was installed, shown advertisements for rival car-rental firms instead. Hertz sued, and in March a German court ordered Claria to stop the practice.

In America, several firms have sued competitors and spyware firms over trademark and copyright infringement, as well as unfair competition. Many of these cases have been settled out of court, which lowers costs and speedily resolves the matter. But this means that no legal precedent is established.

Where courts have ruled, their decisions have been inconsistent: hence the growing interest from policymakers in drawing up legislation.

Earlier this year the state of Utah passed a law banning spyware unless it tells users that it is being installed, asks for their consent, and can be removed. Context-triggered pop-up advertisements were made illegal without the permission of the targeted website. One spyware firm, WhenU, immediately sued to block the law, partly on the grounds that it violated free speech; this will be the subject of a hearing next week. Other states that are considering legislation, including California, New York, Iowa and Virginia, are watching closely. So are federal lawmakers: Congress has drafted two bills restricting spyware and the Senate is debating a third.

These bills are similar in calling for notice, consent and ease of removal. (A European Commission privacy directive in 2002 takes a similar line.) Yet they differ in strength, depending on whose interests they aim to uphold. States such as Utah lean towards consumers, and take a stringent position on what is permissible. The legislation proposed by federal policymakers and by California, by contrast, favours the technology industry with a softer stance. The industry, for its part, is divided. E-commerce sites, which are often the victims of spyware, typically call for new laws, while technology firms fear that legislation could outlaw some of their existing practices. For example, Google's search toolbar has a feature that can collect data if users allow it.

Moreover, some companies that oppose spyware also happen to profit from it. For example, Dell, a computer-maker, has complained that spyware is the main reason for customer calls to its technical support lines. This hurts its brand. In Britain, however, the company has become a customer of Claria, and its ads pop up when users visit the websites of rival firms such as IBM. And in May, Yahoo!, a web portal, released a browser add-on that can block pop-up ads, even though Overture, its ad-placement unit, is responsible for 31% of Claria's revenue.

The analogy with spam is informative. If legislators had acted sooner, it might have been possible to prevent spam from spiralling out of control. Does that suggest that legislation against spyware will also prove ineffective? Not necessarily, because the people behind spyware are a centralised and traceable group of companies, unlike spammers. Lawmakers have an opportunity to nip spyware in the bud, and help to ensure the integrity of the internet. They should take it.

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Face value

Cigarettes and virtual cathedrals

Jun 3rd 2004
From The Economist print edition

Yogesh Deveshwar, the boss of India's biggest tobacco firm, is putting rural India online

SHADED by the generous boughs of an ancient *neem* tree and overlooked by the village temple is the traditional *choupal*, or meeting-place, of Badamungalaya in the Indian state of Madhya Pradesh. A few narrow lanes away, in the spartan front room of Rajesh Nagodia, a local farmer, is the e-*choupal*: a desktop computer, with an internet connection and revolutionary implications for Badamungalaya and 4,150 other villages. The upset in India's recent general election was seen as a rebuff from such villages to a ruling party that boasted of “shining” successes. They had passed the countryside by. The e-*choupal* initiative is an attempt to join the urban India of rapid growth and a world-beating information-technology industry, to the rural one, where 72% of Indians live, many of them in feudal poverty.

In Badamungalaya, farmers use the e-*choupal* to check prices for their soya beans at the nearest government-run market, or even on the Chicago futures exchange. They look at weather forecasts. They order fertiliser and herbicide, and consult an agronomist by e-mail when their crops turn yellow. Some buy life insurance. The local shopkeeper orders salt, flour and sweets. Two wealthy villagers have even bought motorcycles. Others club together to rent tractors. School children check their exam results. “Distance has been killed,” says Mr Nagodia. The village is only about 40km (25 miles) from Madhya Pradesh's capital, Bhopal. But it is a spine-jolting journey along a dirt road.

The improbable headquarters of this operation is a wood-panelled office of colonial elegance 1,500km away in Kolkata (formerly Calcutta). In Virginia House, the 76-year-old seat of ITC, its chairman, Yogesh Deveshwar, is fired with missionary zeal. The e-*choupal* will “transform the rural life of India”. In May it won the inaugural “World Business Award”, for corporate do-gooders in poor countries, bestowed jointly by the International Chamber of Commerce, the United Nations Development Programme, and the Prince of Wales's business forum.

Not bad for an “imperial tobacco company”, as ITC used to be. It is one-third owned by BAT, a British tobacco behemoth. In the year ending March 31st, ITC earned 78% of its revenues and 88% of net profits from cigarettes. When Mr Deveshwar took charge in 1996, BAT was keen on “focus”. It wanted to shed peripheral businesses and concentrate on smokers. India is a promising market: most tobacco is chewed, or smoked in hand-rolled *bidis*. Only 13% of consumption goes on “white” cigarettes, a proportion sure to rise as India gets richer.

Mr Deveshwar, however, believes that “focus” is a developed-country fixation. Rather than excel in one business, he wants to be India's best in several: other consumer goods besides tobacco, such as flour,

cooking oil, matches and salt; hotels (India, he says, has fewer upmarket hotel rooms than does Shanghai); paper, paperboard and packaging; and “agribusiness”, out of which sprang the e-*choupals*.

He says these, launched in 2000, will in five years time be more important to the firm than cigarettes. ITC establishes them where it is already buying agricultural produce. There are websites for each of the crops covered: soya, wheat, coffee and aquaculture (shrimp). Locations are mostly chosen from the 87% of India's 600,000 villages with under 5,000 inhabitants—typically, over 1,000 and fairly accessible. To the obvious shortages, of phone lines, electricity and literate farmers, the answers are VSAT satellite links, solar batteries and carefully chosen *sanchalaks*—or “conductors”—whom ITC equips with the technology.

The *sanchalak* is usually an educated local farmer (ideally with children soon to become computer nerds) from the dominant local caste—so some worry that such schemes reinforce local elites. He earns a commission for any ITC procurement, as well as for sales by third parties. For Badamungalaya's Mr Nogadia, it has become almost a full-time business. The farmers gain market knowledge and, if they wish, sell their product online. They can haggle better with the middlemen, who have tended to skim a huge proportion of rural revenue. And by bundling together demand, farmers can secure better prices for inputs.

Two of the big difficulties faced by the rural economy are mitigated: virtual aggregation disguises the tiny size of most landholdings; better information helps overcome the uncertainty that translates into a reluctance to spend. The possibilities are endless. Once a commercially viable way is found to put a computer in a village, there are plenty of potential users: state governments, putting their services online; consumer-goods firms, whose distribution networks rarely get to smaller villages; microcredit-providers; and so on. Mr Deveshwar's jubilation is that “we will be owners of the road!” and, of course, charge a toll.

I want to break free

Ketan Sampat, president of Intel India, believes that the country is “on the cusp” of a transformation wrought by rural connectivity as profound as the one that public telephone kiosks brought 10-15 years ago. Mr Deveshwar intends to take e-*choupals* from the five states now covered to 15, and to reach 100,000 villages in the next decade. He is not alone. Vineet Nayar, boss of HCL, a firm that provides VSAT technology, says another two firms will roll out similar initiatives this year.

Journalists and share analysts tend to be cynical about Mr Deveshwar's motives: he is trying to embellish ITC's tobacco-stained image; or to diversify away from a product always at risk of government action—Delhi, for example, has just banned smoking in public places (though apparently without telling smokers or the police); or, perhaps, to make more farmers rich enough to smoke cigarettes. But as with all great ideas, the innovator's motive is irrelevant. Mr Deveshwar can afford to scoff at the cynics: “We are building a cathedral. They see us chipping away at the stone, and wonder at such a wasteful activity.”

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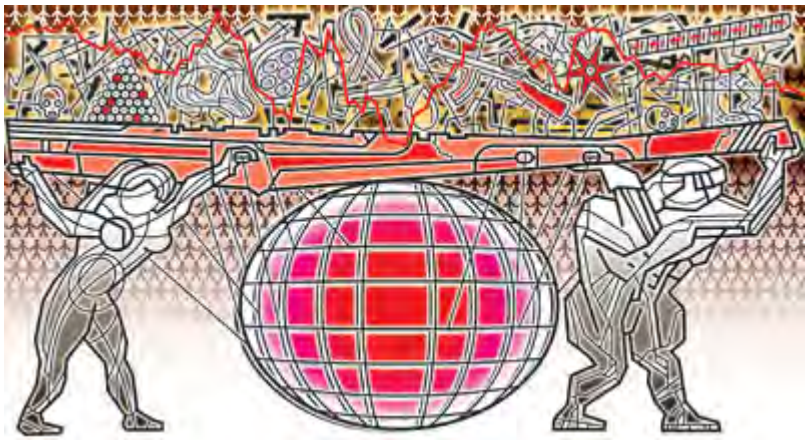
Copenhagen Consensus

Putting the world to rights

Jun 3rd 2004 | COPENHAGEN
From The Economist print edition



What would be the best ways to spend additional resources on helping the developing countries? Some answers

IN RECENT weeks *The Economist* has been following and supporting the Copenhagen Consensus project—an unusual, ambitious and, some have argued, misguided attempt to set priorities among a range of ideas for improving the lives of people living in developing countries. Starting on April 17th, we began publishing, both in print and on our website*, reviews of essays commissioned by the organisers from leading economic researchers. Each of the papers addressed one of ten global challenges, and proposed possible responses. During May 24th-28th, a panel of distinguished economists assembled in Copenhagen. Their task was to review these papers alongside critical commentaries commissioned from other researchers, to question the various authors, and to decide what to make of it all.

The organising idea was that resources are scarce and difficult choices among good ideas therefore have to be made. How should a limited amount of new money for development initiatives, say an extra $50 billion, be spent? Would it be possible to reach agreement on what should be done first?

The drive behind this venture was supplied by Bjorn Lomborg, author of that modern classic of green demythology, “The Skeptical Environmentalist”. Mr Lomborg is a figure of controversy around the world and especially in his native Denmark, where he is currently head of the Environmental Assessment Institute. The meeting was hosted by the institute, with the support of the Danish government.

Mr Lomborg's role, and the somewhat hubristic character of the undertaking (who do these economists think they are, and when have economists ever agreed about anything?), helped to draw attention to the event. So did the calibre of the various challenge-paper authors and discussants, and of the “expert panel” that met to judge their submissions. This panel of eight included three Nobel prize-winners—Robert Fogel of the University of Chicago, Douglass North of Washington University in St Louis, and Vernon Smith of George Mason University. And the other five, who may collect a few more Nobels in due course, are also eminent in their respective fields—Jagdish Bhagwati of Columbia University, Bruno Frey of the University of Zurich, Justin Yifu Lin of Beijing University, Thomas Schelling of the University of Maryland, and Nancy Stokey of the University of Chicago.

At an earlier stage, the panel had narrowed a much larger number of development challenges, drawn from assessments of the United Nations and its agencies, down to just ten:

•Civil conflicts

•Climate change

•Communicable diseases

•Education

•Financial stability

•Governance

•Hunger and malnutrition

•Migration

•Trade reform

•Water and sanitation

That list itself was somewhat controversial, mainly because of what it left out. ("Why nothing on the role of women?" the panel was repeatedly asked by the press during the course of the week.) But the list of ten challenges will strike many as less surprising than the prioritised list of policies that the panel then drew up.

The top of this list (see table) was not the problem. Ranked first was a package of measures aimed at controlling HIV/AIDS. Next came a set of interventions aimed at fighting malnutrition. The third-ranked policy did raise a few eyebrows, among economists and NGO sceptics alike: "multilateral and unilateral action to reduce trade barriers and eliminate agricultural subsidies." ("Why so low?" ask economists. "How come so high?" reply the NGOS.) In fourth place, also unlikely to arouse much protest, were new measures to control malaria.

The results

Project rating		Challenge	Opportunity
Very good	1	Diseases	Control of HIV/AIDS
	2	Malnutrition	Providing micro nutrients
	3	Subsidies and trade	Trade liberalisation
	4	Diseases	Control of malaria
Good	5	Malnutrition	Development of new agricultural technologies
	6	Sanitation and water	Small-scale water technology for livelihoods
	7	Sanitation and water	Community-managed water supply and sanitation
	8	Sanitation and water	Research on water productivity in food production
	9	Government	Lowering the cost of starting a new business
Fair	10	Migration	Lowering barriers to migration for skilled workers
	11	Malnutrition	Improving infant and child nutrition
	12	Malnutrition	Reducing the prevalence of low birth weight
	13	Diseases	Scaled-up basic health services
Bad	14	Migration	Guest-worker programmes for the unskilled
	15	Climate	"Optimal" carbon tax
	16	Climate	The Kyoto protocol
	17	Climate	Value-at-risk carbon tax

Source: Copenhagen Consensus

Note: Some of the proposals were not ranked

The panel rated all four of those proposals "very good", as measured by the ratio of social benefit to cost. In fact, by the ordinary standards of project appraisal, they are not just very good but extraordinarily good, with benefits exceeding costs by a factor of ten or more, and sometimes much more. That proposals this good should fail to be adopted for lack of finance is a scandal, especially when you reflect on some of the projects that governments *are* currently financing.

The bottom of the list, however, aroused more in the way of hostile comment. Rated “bad”, meaning that costs were thought to exceed benefits, were all three of the schemes put before the panel for mitigating climate change, including the Kyoto protocol on greenhouse-gas emissions. (The panel rated only one other policy bad: guest-worker programmes to promote immigration, which were frowned upon because they make it harder for migrants to assimilate.) This gave rise to suspicion in some quarters that the whole exercise had been rigged. Mr Lomborg is well-known, and widely reviled, for his opposition to Kyoto.

These suspicions are in fact unfounded, as your correspondent (who sat in on the otherwise private discussions) can confirm. A less biddable group would be difficult to imagine. The challenge-paper on climate change was written by William Cline of the Centre for Global Development; Mr Cline is pro-Kyoto, and in fact favours even stronger measures to abate carbon emissions than the protocol requires. But the panel insisted on making their own minds up on the issue. Right or wrong, there was no dissent among any of the eight.

Interestingly, an invited gathering of young people from around the world attending a “youth forum” run in parallel with the main event, and hearing the same submissions from challenge-paper authors and their discussants, ranked climate change only ninth out of the ten global challenges. So much for the view that age blinded the expert panel to the long-term dangers of global warming (“they won't be around to suffer the consequences”). Perhaps this should give pause to governments dedicated, or claiming to be dedicated, to Kyoto's implementation.

Who do they think they are?

How valid was this exercise even in economic terms—to say nothing of whether economists should give advice on choices in which ethics and politics play a great part? So far as the economics goes, the main issue is whether the proposals can properly be compared with one another.

A partial answer is that they will be so compared—if not explicitly, then implicitly—whether economists like it or not. Governments do in fact set priorities among the well-intentioned projects they can choose to finance, merely by deciding to do some things and not others. A ranking could be inferred from the choices they actually make. So why not face the question of priorities head-on? If it has to be done, it is best to do it well—and that, despite the undeniable difficulties, means giving the issue of priorities some thought.

Cost-benefit analysis must be the organising method for any such analysis—even if one thinks of this approach as inconclusive on its own, or as little more than a way of ordering one's thoughts more logically. Trying to calculate costs and benefits has the virtue of forcing assumptions into the open. If it turns out that different projects are being compared on the basis of different assumptions about, for instance, the value of a life saved, or the rate at which future costs and benefits should be discounted, it will become obvious, and allowance can be made.

And this, in fact, is exactly what the expert panel found. The challenge-paper on climate change, for instance, proposed the use of a far lower discount rate than the other studies (though it offered reasons for doing so). And estimates of the value of life (or of a “disability-adjusted life-year”, the standard yardstick) likewise tend to vary from study to study. The panel allowed as best it could for differences such as these. It also had to take two other broad points into consideration.

One is that there is a great deal of interdependence among the proposals. For instance, one of the challenge areas was civil conflicts. Several proposals for reducing their frequency, duration and severity were discussed. If such measures were to succeed, however, the benefits would extend far beyond reducing direct losses in lives and livelihoods. The effectiveness of many other forms of aid depends on civil order. In countries riven by conflict, little can be done to speed economic progress. Given peace and security, well-directed aid has a chance of working. In principle, the calculation of costs and benefits should take such linkages into account. In the case of civil conflicts, the implication is that the benefits that would flow from reducing their incidence are much larger than they might at first appear.

A second difficulty, frequently emphasised by members of the panel during their discussions, is that the likely effect of most if not all of the interventions under review depends on the local institutional context. For instance, spending more money on education may yield good results in countries where schools are already held accountable, in one way or another, for the quality of the service they provide. Where they are not held accountable, which is the position in most of the least developed economies, additional

spending may simply be wasted.

Since the institutional setting varies greatly from country to country, generalising about the prospects for any particular policy is dangerous. Throughout, the panel leaned towards recommendations which made the smallest demands on government agencies and other institutions—that is, towards proposals where there seemed less to go wrong. If one could assume “good government”, many of today's intractable development problems would be soluble. Needless to say, one can make no such assumption.

Even if these questions of interconnectedness and institutions could be waved away, and basic parameters such as the value of life and the discount rate were clear-cut, the cost-benefit approach would still be difficult to implement. After all, it requires forecasts of costs and benefits, often extending far into the future—in the case of global warming, literally centuries into the future. Such forecasts will always be prone to error. And none of the panel was willing to let a mechanical assignment of costs and benefits drive the process to the exclusion of everything else. Their concluding statement emphasised that weight had been given as well to “the demands of ethical or humanitarian urgency”.

All those in favour

You might think this would have condemned the Copenhagen Consensus project to irrelevance—or at any rate to inconclusive squabbling among members of the panel. Surprisingly, that did not happen. Admittedly, sceptics could argue that the meeting had been designed to yield an apparent consensus even where there was none: the group's ranking of proposals was to be derived by taking the median of all the members' individual rankings, assuring a result, at least in an arithmetical sense. Yet each member was still going to have to endorse the collective ordering—which they did, and which was not to be taken for granted.

Also, since the individual rankings are to be published in due course, along with members' commentaries explaining their choices, it was desirable that the different orderings should look quite similar. Otherwise, the result would command little respect. In fact, the individual orderings were pretty much alike. Despite clear differences of intellectual approach and of ideological tendency, the group did indeed arrive at a broad consensus—both in setting priorities and in agreeing that some projects could not be ranked.

Altogether the challenge-paper authors offered 38 proposals for action. The panel chose to rank only 17 of these, deeming that for the other 21 there was too little information to make a clear judgment about the relative merits. (A proposal was included in the group ranking only if five of the members had included it in their individual ranking. Again, however, there was surprisingly broad agreement about which proposals to rank and which not. With only one or two exceptions, policies tended to be ranked either by all of the members or by none.)

With something close to unanimity, the panel put measures to restrict the spread of **HIV/AIDS** at the top of the ranking. The challenge paper on communicable diseases, by Anne Mills and Sam Shillcutt of the London School of Hygiene and Tropical Medicine, having reviewed the literature, reckoned that a package of preventive measures costing some $27 billion (in purchasing-power-adjusted dollars) over eight years would prevent nearly 30m new infections (reducing expected infections from 45m over the period to 17m). One study has calculated that part of this package, condom distribution combined with treatment for sex workers who are suffering from sexually-transmitted diseases, would entail a cost of just $4 for each disability-adjusted life-year saved. The implied ratio of benefits to costs is nearly 500—and this is assuming a value of life, based on GDP per head, that is significantly lower than the figure of $100,000 which the panel said it preferred to apply.

Not only are millions of lives directly at stake. In sub-Saharan Africa, the toll of AIDS is so terrible that whole societies are in danger of breaking down. Despite the fact that the issue has received enormous attention of late, efforts to remedy the problem are still curtailed by lack of funds. The daunting scale and urgency of the issue, no less than the estimated costs and benefits of prompt action, persuaded the panel to make this its highest priority.

The same paper made a similarly compelling case for more to be spent on the control and treatment of malaria. Several different interventions were recommended, notably the wider provision of bednets treated with insecticide. Distribution of nets does require a basic health-service network, but experience in Tanzania, for instance, suggests that coverage of the population can be substantially increased given extra resources. Benefit-cost ratios are high. The panel earmarked more than $10 billion of its hypothetical $50 billion for this and a range of other anti-malaria initiatives, putting the package as a

whole at number four in the ranking.

In second place, just behind control of HIV/AIDS, came a proposal to attack malnutrition—iron-deficiency anaemia, in particular—through a targeted programme of food supplements. Again the evidence suggests that the idea is feasible, and that it offers exceptionally high ratios of benefits to costs. This would account for the remainder of the putative $50 billion.

What about trade reform? The panel was keen on it, as you might expect, but the issue caused more disagreement than any of the other top four recommendations. The net global benefits of free trade, including the elimination of agricultural subsidies, would be enormous, according to the challenge-paper by Kym Anderson of the World Bank, maybe running into the trillions of dollars. According to one view, the budgetary outlays needed to secure these benefits are actually zero, implying not just a huge flow of net benefits but also a benefit-cost ratio of infinity. Beat that.

But two cautionary notes were entered. First, eliminating farm subsidies, often demanded of rich-country governments as a pro-poor policy, would, at least in the first instance, hurt some developing countries: the ones, often the very poorest, that are and expect to remain net importers of food. A way must be found to help them. Second, trade liberalisation hurts some workers even in rich countries. More generous trade-adjustment assistance may therefore make sense, especially if it is aimed at workers displaced from industries struggling to survive in any case.

Proposals for spending more on water and sanitation were approved, and ranked high, in places six to eight inclusive, with little to choose among them. No education projects were ranked. Nor was Barry Eichengreen's intriguing proposal (see our Economics focus of April 17th) for the fostering of new bond markets. Nor were any proposals for better governance, except for the proposal to lower state-imposed costs on new businesses, which got the nod because the costs are low, the institutional requirements modest, and the possible benefits very great. In all these cases, the panel reckoned there was too little research to go on.

At the foot of the list stand the three proposals on global warming. All require sharp reductions in carbon emissions starting soon, reflecting the view of the challenge-paper author, William Cline, that bold action on the problem is warranted, and quickly. The panel, all in agreement, simply refused to buy it. The issue is real, they said, but not so urgent that such massive abatement costs need to be incurred right now. One of the commentaries on Mr Cline's paper, by Robert Mendelsohn of Yale University, proposed starting with a much lower carbon tax than implied by Mr Cline's three variants—at say $2 a tonne (compared with $150 in Mr Cline's “optimal” carbon-tax plan), rising in later years as more information on both the hazards and the technological opportunities became available. The panel thought that was more like it.

So the Copenhagen Consensus ended, surprisingly enough, in consensus. Mr Lomborg is again to be congratulated for his intellectual entrepreneurship. If rich-country governments want excellent value in return for an increase in their taxpayers' dollars spent confronting global challenges, they could do a lot worse than look closely at the highest-ranked ideas from this exercise.

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* See www.economist.com/copenhagenconsensus. See also www.copenhagenconsensus.com.

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Russian oil companies

That sinking feeling

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From The Economist print edition

Investors in Russian oil firms are fleeing, despite the surging oil price

Get article background

RUSSIA is the world's biggest oil producer after Saudi Arabia. The price of oil has lately been leaping from peak to peak. So the shares of Russian oil companies ought to be soaring—right? In fact, they have been falling through the floor. Russia's RTS index, stuffed full of energy companies, has been the worst-performing stockmarket in the world over the past couple of months, and one of its biggest oil companies, teetering on the brink of bankruptcy, has been one of the worst-performing stocks.

“There have to be very ugly things happening in Russia to make it possible to bankrupt an oil company when oil is at $40 a barrel,” says Kaha Kiknavelidze, an analyst at Troika Dialog, a broking firm. Indeed there do, and those things may give foreign companies cause to hesitate before wading in to help Russia develop its oilfields. In present circumstances, this is a troubling thought.

Yukos, the oil company concerned, has been in trouble since last October, when its boss, Mikhail Khodorkovsky, was arrested at gunpoint and thrown in jail to await a trial that has now just begun. This was a dramatic event even by Russian standards, and shares in Yukos have fallen ever lower as each piece of news, all of it bad, has brought it closer to the edge. From over $15 earlier this year, its share price had fallen to $7 by June 2nd.

The latest rout started on May 25th, when a court said that Yukos must pay $3.4 billion in back tax for 2000. The company has a month to appeal, and then (probably) a further three months to pay should it lose. Unfortunately, more claims may be on their way for other years, and it is unclear whether it can meet even this one. On May 27th Yukos said that it has only $800m with which to pay its tax bill, instead of the $1 billion-plus it said it had a month previously. For the first time, it said it might go bankrupt. “The situation in large part depends on the goodwill of the government,” said Yury Beilin, its deputy chief executive. There isn't any.

Standard & Poor's, a rating agency, now rates Yukos debt at CCC, one notch above D, which stands for default. Viktor Gerashchenko, the former head of the central bank who is widely expected to be made chairman of the firm next month, has said that he will save it from bankruptcy. Perhaps his words should be taken with a pinch of salt: Mr Gerashchenko has been described by Jeffrey Sachs, a well-known American economist, as “the worst central banker in history”.

Optimists have always insisted that Yukos was a one-off: Mr Khodorkovsky, they said, had dabbled too much in politics. They kept to this line even as it became clearer that the government did not just want to get rid of Mr Khodorkovsky but to nab the company from its present owners, and even though many other companies have used similar tax-avoidance schemes to those that have landed Yukos in trouble.

Yukos and others got around tax largely through transfer pricing, an accounting practice which sets the prices at which a firm's subsidiaries buy and sell things with one another. In most countries this is supposed to reflect the prices at which an unconnected company would be happy to deal. In Russia, this method has often been notably absent. For instance, TNK, another oil company, also managed to pay startlingly lower taxes than the federal corporate-tax rate (now 24%) might suggest.

But the most aggressive, says Troika Dialog's Mr Kiknavelidze, was not Yukos but Sibneft, with which Yukos merged just before Mr Khodorkovsky's arrest (a merger that was partially annulled by a court this week, sending Yukos's share price even lower). Sibneft, says Mr Kiknavelidze, had an effective tax rate of just 9% in 2001. It achieved this largely by setting up a new company every quarter into which it siphoned off profits. It then bought the company for a dollar.

Such schemes, say analysts, were entirely legal under Russian law. Courts have historically interpreted the law narrowly. But the government now says that they are illegal and, so far, courts have gone along with this.

However dubious the tax-avoidance schemes may have been, few think that the decision against Yukos was anything other than political. Rumours are buzzing around the Moscow grapevine as to which company might be next. Some think that the arrest of Mr Khodorkovsky was not simply a warning to other fabulously wealthy oligarchs—those who took control of swathes of Russian industry in the mid-1990s in dubious circumstances—but a prelude to snatching much of Russia's energy industry from its present owners, either to put it back into state hands or to hand it to people more loyal to President Vladimir Putin.

Thus it may not be a coincidence that the tax authorities have declared the region of Chukotka insolvent. The boss of Sibneft, Roman Abramovich, is its governor, and the company set up many subsidiaries there for tax purposes. But no one knows whether the government will go after another oil company. The point is that it can. That uncertainty makes Russia a much less enticing place in which to invest. The world's big oil companies “are not going to fall over each other to get into Russia until the interpretation of [Russia's] legal framework is more defined,” says Eric Wigertz, co-head of research at UFJ, another broker.

Given worries about property rights and how much tax oil companies may owe, it is not surprising that shares in most of them have suffered badly in recent weeks. At best, energy companies face higher tax bills and lower profits; at worst, their owners may be dispossessed. Investors have been fretting that the same could happen to other firms.

Since their peak on April 12th, the market capitalisation of Russian oil firms has dropped from $106 billion to $64 billion. The worth of all of the Russian stocks that are big enough to be followed by UFJ has fallen from $225 billion to $164 billion. If it were not for the rising price of oil, how much farther would they have fallen?

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Oil prices

Saudi jitters

Jun 3rd 2004
From The Economist print edition

Markets fret about supplies from Saudi Arabia. Rightly so

Get article background

AP

Keeping the taps open

OPEC, the oil producers' cartel, gathered in Beirut this week under pressure from Saudi Arabia, its dominant force, to raise production quotas. As *The Economist* went to press an increase looked likely. Even OPEC members think the price is too high. This week it surged again: on June 1st the benchmark price in New York rose by 6%, to almost $42.50 a barrel, a 21-year high. It then fell back in anticipation of OPEC's decision.

The immediate cause of the latest upward lurch was a terrorist attack on Khobar in Saudi Arabia, apparently by al-Qaeda. The attack was brief and fewer were killed than might have been; Khobar, moreover, produces, refines and exports no oil. But in their current excited state, many in the oil market are wondering whether the attack on a foreign compound heralds a bigger one on a production facility. The effect of that on the oil price—and on the global economy—could be dramatic.

The oil market is so sensitive about Saudi Arabia because the country is so important to world oil production. It is not only the world's biggest exporter of oil (though Russia has been catching up); the country also acts as a sort of central bank in the oil market, moderating price swings by turning on the taps when prices rise too high and turning them off again when they fall too low. The kingdom also has a quarter of the world's proven oil reserves.

Until now, oil has flowed uninterrupted from Saudi Arabia, despite the violence that still rages there and elsewhere in the region. Its rulers insist that it will continue to do so. “I tell you I am confident that facilities in Saudi Arabia are very, very secure and they are protected very strongly to prevent anything happening to them,” said Ali al-Naimi, the Saudi oil minister, this week. The country has spent billions of dollars in recent years to ensure that nothing disrupts production.

But Saudi Arabia is an opaque country ruled by an absolute monarchy. Outsiders know little of what goes on, except that tensions are rising. Though the middle class wants more liberalisation, another slice of the population hates what it sees as increasing westernisation (see article). Small wonder that al-Qaeda, which has declared war not only against America but also against the Saudi regime, seems to have much support.

The unpleasant truth is that the world depends for a plentiful supply of oil on an opaque, nasty regime in an unstable part of the world. Both the country and the region seem to be getting nastier and more unstable with every passing week.

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Global house prices

Hair-raising

Jun 3rd 2004
From The Economist print edition

Australia's housing bubble could be the first to burst. It won't be the last

SEEKING to cut through the tangle of statistical measures of Britain's housing market, the economics editor of *The Economist* turned to her hairdresser. Last year, he was convinced that "buy to let" was a sure way to make money. Today, finding it harder to cover his costs with rents, he has decided to sell. A sign that the residential-property boom could soon turn to bust? Maybe. Figures, not just anecdote, also suggest that in Britain and elsewhere, housing markets look ready to fall.

Two years ago, we launched a set of house-price indicators, backdated to 1975, for 13 developed economies. In our latest quarterly update we have added three more countries: New Zealand, Denmark and Switzerland. Our indicators, based on data from estate agents, lenders and official sources, show that house prices are slowing in several economies that had been looking frothy. In America average house prices rose by only 1% in the first quarter of this year, the smallest quarterly increase for six years. Prices fell in 39 of the 220 metropolitan areas covered. Even so, prices were still 7.7% higher than a year before (see table). California saw the biggest gains, with prices up by 18% in Los Angeles. But higher mortgage rates may be starting to bite: new home sales fell by 12% in April, the biggest drop for ten years.

The *Economist*'s house-price indices
% changes

	Q1 2004*	Q4 2002	1997
	on a year earlier		-2004*
New Zealand	22.0	11.7	47
Australia	17.9	18.4	113
Spain	17.3	17.4	121
Ireland	12.9	11.1	174
France	11.8	9.3	59
Italy	10.6	9.8	54
Britain	7.8	25.2	116
United States	7.7	7.6	53
Netherlands	6.9	4.1	75
Canada	6.3	7.0	30
Sweden	6.1	9.2	67
Belgium	5.5	9.9	54
Switzerland	3.4	4.3	11
Denmark	3.1	4.2	41
Germany	-1.7	-3.3	-3
Japan	-5.7	-4.7	-22

*Or latest

Sources: Bulwein; ESRI; Japan Real Estate Institute; Ministerio de Fomento; Nomisma; NVM; ODPM; OFHEO; Quotable Value; Stadim; Swiss National Bank; government statistics offices

The average house price in Britain, as measured by the Office of the Deputy Prime Minister (ODPM), rose by 7.8% in the year to March, down from an increase of 25% at the end of 2002. The ODPM index weights price changes by the value of homes in different parts of the country and is considered to be a more accurate measure than other indices which currently show prices rising much more rapidly.

Australia's housing market has weakened. According to official data, average house prices kept rising in the first quarter, leaving them 18% higher than a year before. However, figures collected by Australian Property Monitors, which are more timely because they are based on prices when contracts are signed rather than at settlement, suggest that home prices tumbled by an average of 8% in Sydney and by 13% in Melbourne in the first quarter. Anecdotal evidence suggests that the slide has continued since then. Last weekend in Sydney only one-third of properties put up for auction—the most common method of sale in Australia—were sold, signalling that prices have farther to fall.

The drop in house prices in Australian cities undermines a popular argument heard in Britain and America that even if house prices do look frothy, they are unlikely to fall unless there is a big rise in interest rates or a jump in unemployment. Neither has been needed in Australia. Interest rates have risen by only half a percentage point during the past year, to 5.25%—less than half the level during the previous housing downturn in 1990. Meanwhile, unemployment is close to a 20-year low.

Instead, the main reason for the falls in Sydney and Melbourne seems to be that first-time buyers have been priced out of the market, while demand from buy-to-let investors has dried up as net rental yields have fallen below mortgage rates. This holds lessons for Britain, where the number of first-timers has

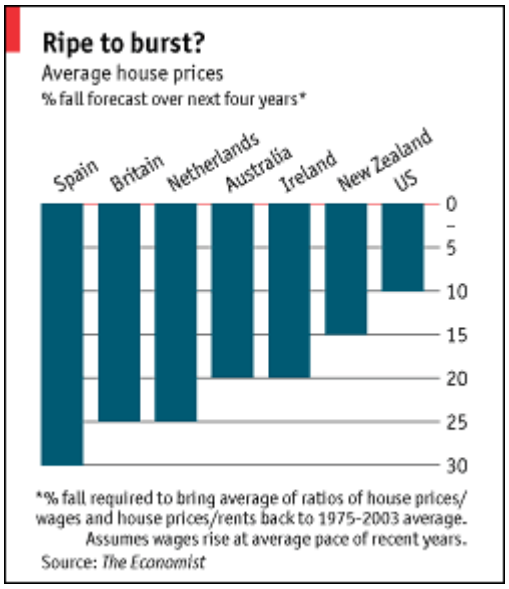
also slumped and buying-to-let is looking less profitable.

However, not all markets are slowing down. House prices in New Zealand surged by 22% in the year to the first quarter, the biggest increase in any of the countries we track. House prices have also risen at double-digit rates in France, Italy, Spain and Ireland in the past year.

House prices have outpaced inflation everywhere in recent years except Germany and Japan, where prices continue to fall. Among our 16 countries, prices are now at record levels in relation to average wages and rents in America, Australia, Britain, Ireland, the Netherlands, New Zealand and Spain. The ratios of prices to incomes exceed their averages in the past 30 years by between 25% and 60%. A return to the long-term average could be brought about either by a fall in house prices or by a rise in wages and rents. The snag is that with wages in most countries increasing by only 3-4% a year, it would take years for inflation to erode real house prices to normal levels.

The chart to the right shows by how much prices would need to fall to get back to their long-term average, assuming that the decline takes place over four years and that wages rise at a pace similar to that in the recent past. House prices would need to fall by 10% in America, by 15% in New Zealand and by 20-30% in the other five countries.

Need prices fall so far? Maybe not: lower real interest rates than in the past would justify an increase in the long-term ratio of house prices to wages and rents, and would therefore require a smaller fall in prices. On the other hand, when past housing booms have turned to bust, prices have typically undershot their average by 10% or more.



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The IMF

The new man at the Fund

Jun 3rd 2004 | WASHINGTON, DC
From The Economist print edition

Rodrigo Rato, the IMF's incoming managing director, has plenty of work to do

THE job description is scarcely enticing: chief executive of a financial institution which has concentrated 70% of its lending on just three clients, whose corporate mission is in dispute, whose public image is poor and whose board of directors is meddlesome, quarrelsome and highly politicised. That, more or less, awaits Rodrigo Rato, until recently finance minister of Spain, who takes over as managing director of the International Monetary Fund on June 7th. His predecessor, Horst Köhler, quit to become president of Germany, a rather less stressful post.

Luckily, no big economy faces financial catastrophe, although the prospect of higher short-term interest rates in America is making borrowing dearer for emerging-market debtors and the jump in oil prices is hurting energy importers. Less luckily, the Fund still has to deal with Argentina, long its biggest headache. In particular, it has to prod Argentina into an agreement with its private creditors. This week Argentina made these a new, “final” offer that, although more generous than the previous one, may still be too little to be accepted.

Worse, the IMF's role and capabilities are subjects of fierce dispute. Ideas for reform abound. At America's behest, the G7 group of rich countries is in the midst of a “strategic review” of the Fund's activities. Some commentators think that the institution has strayed too far from its original purpose of policing the global financial system and that it should focus on the big imbalances in the global economy, namely America's huge current-account deficit and the vast Asian foreign-exchange reserves that finance it. Fred Bergsten, of the Institute for International Economics, told a Senate committee recently that the IMF was violating its own rules by not shouting louder for Asian countries to revalue their currencies.

Other critics question the organisation's involvement in subsidised lending to the poorest countries. Some of these, such as America's Treasury, want to abolish poor-country loans in favour of grants. Others think the Fund should simply get out of these countries altogether.

The loudest complaints, however, focus on the Fund's role in emerging markets. Starting with Mexico's peso crisis in 1995, the IMF coped with emerging-market crises by offering exceptionally large loan packages. It lent billions to countries such as Mexico, Thailand, South Korea and Russia. Most of this has been repaid.

More recently, many stronger developing countries, particularly in Asia, have in effect opted out of relying on the IMF, mainly by building up enormous foreign-exchange reserves. The IMF's behaviour has changed too. It has become embroiled in a few heavily indebted countries, particularly in Latin America. It has been giving “exceptional access”—money beyond the usual limits—to countries with deep fiscal problems rather than short-term liquidity difficulties, whose solvency is more questionable. As a result, the IMF accounts for an ever larger share of these countries' external debt.

Argentina, which owes the Fund $15 billion, is the most infamous case. The IMF lent lavishly and mistakenly in ever more desperate bids to stave off Argentina's default. Worse, it was cajoled by America's Treasury into allowing Argentina to roll over these loans last year, although the country was making little progress on economic reform.

Far more is owed by Brazil ($27 billion) and Turkey ($22 billion). Both countries have heavy debts; both received huge IMF loans when facing crises in 2002. The gambles have so far paid off. The two have large primary fiscal surpluses and are in better economic shape than they were two years ago. Yet both remain vulnerable.

These loans are not about to sink the IMF, which still has more than $80 billion to lend. But they do pose problems. First, they put the Fund in a weak bargaining position with big borrowers. It could survive one default, but possibly not two. In any case, its political masters are desperate to avoid even one, and borrowers know it.

A second problem stems from the IMF's rising share of these countries' debts. Traditionally, the Fund has been paid back before other creditors. But the sheer scale of the IMF's loans has led many private investors in Argentina, for instance, to wonder why they should lose more because the Fund has lent recklessly.

Finally, lending a lot to several indebted countries is likely to tie up the IMF's resources for a long time. Although the Fund's help is meant to be temporary, no one expects Argentina or even Brazil to repay the Fund quickly. Worse, these countries are likely to suffer most should global financial conditions turn stormy.

None of this is lost on the Fund's shareholders who, in principle, are keen to get big loan packages under control. A year ago its board set out conditions that had to be met by countries wanting exceptional access. John Taylor, top international man at America's Treasury, recently touted these as a crucial improvement. Unfortunately the rules were immediately broken in the case of Argentina and Brazil—thanks in no small measure to political pressure from the Treasury. And that is the rub. Forget the rules: political influence has become the best guide to how much money a troubled economy is likely to get.

Somehow, Mr Rato will have to manage a concentrated portfolio and restore clarity and credibility to IMF lending. His first test will be to persuade Argentina to strike a fair deal with its private creditors and to ensure that it pays back the Fund. He must avoid letting the institution being treated as a patsy either by its big debtors or by its rich-country masters. As the first professional politician to lead the IMF, Mr Rato may be just the man for the job.

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About sponsorship

Chinese banks

Newbridge to the mainland

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The first foreign takeover of a Chinese bank will be hard to copy

AFTER a two-year courtship that veered from friendly negotiations to broken promises and an ugly international lawsuit, Newbridge Capital, a feisty American private-equity firm, has beaten the world's biggest financial institutions to become the first foreigner to gain control of a Chinese bank. HSBC, Citigroup, Standard Chartered, the Asian Development Bank and the IFC, the private-sector arm of the World Bank, have also been scrambling to buy stakes in mainland lenders. But so far only Newbridge has managed it.

Because individual foreign holdings in Chinese banks are limited to 20%, Newbridge will buy only 18% of Shenzhen Development Bank (SDB) from the government of Shenzhen, a boomtown bordering Hong Kong, for a reputed $150m. But the deal, sealed on May 31st, permits the Americans to appoint a majority of the 15-strong board. They will thus be able to run SDB, the main bank in the city.

Unfortunately, this is not quite the breakthrough for the *gweilos*, or foreigners, that it seems. China's policymakers are eager to attract foreign expertise to help buoy the country's appallingly managed banks, most of which are drowning in non-performing loans (NPLs). But the Chinese authorities are equally sure that they cannot relax their grip too quickly on a financial sector that ensures employment and social stability through politically directed lending. The Newbridge deal may thus prove unique, for several reasons.

For a start, SDB is small enough to let go of, with assets of only $25 billion, 300 branches and around 4,000 employees. The ownership of the bank, listed on the domestic Shenzhen stockmarket, is highly dispersed, with 72% in public hands, allowing Newbridge to gain a lot of power with a smallish stake. Ownership of the other listed joint-stock banks—Minsheng, Shanghai Pudong Development and China Merchants—is much more concentrated. Newbridge was also helped by the fact that its main rival for SDB's affections, Chinatrust of Taiwan, was politically unsuitable. That gave the Shenzhen government little choice but to return to the negotiating table after it reneged on its original agreement with the Americans in 2003.

Newbridge also has an impressive track record. It transformed Korea First Bank, which it bought shortly after the Asian financial crisis, from a basket case with a bad-loan ratio of more than 50% into South Korea's soundest lender, with NPLs of just 1.4% of assets. While declining to comment on the SDB deal, Weijian Shan, Newbridge's managing director, points to Korea First, the country's eighth-biggest lender, as a model for what can be done. “We centralised credit decision making like no other Korean bank has done,” he says.

Newbridge also rapidly reduced the bank's exposure to big, corporate borrowers such as Daewoo and SG Global, both of which in effect went bankrupt, and pushed into retail financial products, such as mortgages and credit cards. This paid off because the newly centralised credit-approval system led Korea First to cut its exposure to LG, the credit-card issuer with the worst record for defaulting borrowers. Its rivals also went for retail business, but took less care (see article). Last year, says Mr Shan, Korea First took more mortgages than Kookmin Bank, the country's biggest, “which is eight times larger.” Newbridge had started to install centralised credit management at SDB before it was forced to drop last year's bid.

SDB's small size means that making such changes should be just about manageable within three to five years, even if, as seems likely, the bank's NPL ratio turns out to be much higher than the declared 10%. And Newbridge is in a strong position financially: it bought at around 1.6 times net book value when the shares are trading at 4.5 times. An international listing for SDB looks possible in a few years, at which point the Americans could cash out.

The story is very different, however, for the bigger city and commercial banks, the Bank of Communications, the fifth-biggest lender (in which HSBC is currently seeking a stake), and above all the big four state banks. With vast, hugely overstaffed branch networks and far weaker balance sheets, cutting costs and instituting a commercial credit-culture will be a gigantic task. While several of these banks are seeking a public listing, it will be hard to convince overseas investors, whether institutional or strategic, to buy more than minority stakes until the government injects more money and the banks improve their management. The first deal to take control of a Chinese bank may also be the last for quite a while.

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South Korea's banks

Hangover cure

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The aftermath of consumers' borrowing binge

SOUTH KOREA'S consumers are still suffering a financial hangover from a credit-card borrowing binge, but the banks that encouraged them are recovering. In the first quarter of this year the country's 19 domestic banks made net income of 1.68 trillion won ($1.4 billion): a year earlier, they barely made a profit. Weighed down by bad consumer debts, their earnings fell by 63% last year.

Although the proportion of bad loans crept up in the first quarter, provisioning costs went down, because the banks had set aside ample amounts last year. Interest income went up. And the banks' losses on their securities holdings, which included long-term bonds backed by questionable credit-card loans, fell from 713 billion won to 109 billion won.

The banks' credit-card troubles were caused by a giddying increase in consumer borrowing, which coincided with South Korea's recovery from the 1997-98 financial crisis. The domestic banks, which had formerly been too eager to lend, at the government's urging, to the country's conglomerates, switched their enthusiasm to offering more credit to households. Many non-bank card issuers, such as those attached to the Samsung and LG conglomerates, joined in. The government helped fuel the plastic craze by offering tax breaks for credit-card purchases. Between 1999 and 2003, the number of credit cards in circulation more than tripled and credit-card debt more than quintupled.

The banks are now trying to put all this behind them. LG Card, the worst offender, was bailed out by its creditors, led by Korea Development Bank, in January. Last month, the government launched a “bad bank” to take over many of the 3.9m credit-card loans that are in arrears. It reckons that 1.8m card users, owing 21 trillion won, will be eligible for the relief scheme.

The scheme will apply only to people who owe money to more than one card issuer, are at least six months in arrears and do not owe more than 50m won. Consumers joining the scheme will have up to eight years to repay their debts, interest-free. After paying off 3% of their balances, they will be taken off the creditors' blacklist, which not only warns lenders of risky borrowers but also is available to employers. This should make it easier for debtors to find jobs and thus to repay what they owe. That might help to revive consumption, which fell by 1.4% in 2003. But there are few signs of this yet—and with a hangover of this scale, no wonder.

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Economics focus

Costs of living

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Official inflation rates suit nobody perfectly

OVER the past two decades, central bankers in many countries have earned praise for taming inflation. In America, the rate of increase of the consumer-price index (CPI) has fallen steadily, save for an upturn during the first Gulf war. Granted, the prices of assets—first shares, before they crashed; now, residential property—have risen dramatically. But consumer-price inflation has clearly been brought under control. This has generally been good news for consumers. But has everyone benefited to the same extent?

Lately, there have been echoes of the days when inflation roared. Petrol now costs well over $2 a gallon in America and has touched £1 a litre (around $7 per American gallon) in Britain, where fuel taxes are much higher. Although inflation generally remains low, higher petrol prices cause more pain to some people than to others. If you drive a gas-guzzling SUV, the chances are that your personal cost of living is rising much faster than the official price index. If you walk or cycle to work, rising petrol prices make little difference to you: your personal inflation rate, other things being equal, is less than the official one.

Roughly speaking, official price indices measure the price of the goods and services consumed by the "average" household. Official inflation rates are often used to determine annual increases in social-welfare benefits and old-age pensions, or as reference points for wage bargaining. But because everyone's spending differs from the average in some way, so does everyone's personal inflation rate. Do these variations matter?

In a recent paper*, Bart Hobijn and David Lagakos, economists at the Federal Reserve Bank of New York, try to answer this question. The authors delve into the details of America's consumer-price index (CPI) from 1987 to 2001 and examine the extent of "inflation inequality" among different social groups. Even though inflation has been low, the prices of education and health care, for example, have risen much faster than those of manufactured goods, such as cars and clothing. In part, this is because labour-intensive industries, such as schools and hospitals, do not make productivity gains as easily as manufacturing. Service industries have also benefited less from the price-lowering, competitive effects of globalisation and internet shopping.

Has that made for wide inflation gaps among Americans? By analysing various demographic slices, the authors find that differences between urban and rural consumers, or between black and white Americans, are much narrower than they seem to have been in earlier decades. But other gaps persist. Families with young children, according to the study, have faced much lower inflation than other households, thanks mostly to lower health-care bills and to not having to pay university fees. Inflation in education averaged 6.6% during the period from 1985 to 2000, while inflation in health care ran at 5.6%.

During the period studied, inflation rates were most widely distributed in 1991, with a standard deviation of 1.8 percentage points—implying that roughly one-third of Americans had personal inflation rates at least this far away from the CPI measure. By 1996, when inflation was lower, the standard deviation had fallen to only 0.2 points.

The most important question is whether the old face a different inflation rate from the young, because America's state pensions are indexed to the overall CPI. The authors say that, over the period studied, old people faced a CPI inflation rate that was around 0.2 to 0.4 percentage points per year higher than the average, which implies that the real value of their pensions has dwindled over time. As you would expect, this is mostly attributable to higher health-care inflation, and old people's heavier use of it. They spend, on average, twice as much of their income on health care as younger people do. This result seems

specific to America. A recent study of British spending patterns found that the old faced lower inflation than the young, thanks in part to the provision of tax-financed health care by the state.

A question of quality

It is inevitable that any index will fit the spending patterns of some people better than others. One way of dealing with the differences might be to use different indices for different demographic groups. But there are sure to be differences within groups as well as between them. In any case, Messrs Hobijn and Lagakos find that most variations iron out over time. Households that face higher-than-average inflation rates one year tend to have lower-than-average rates the next year, and vice versa.

In the same way, booming house prices hurt first-time buyers much more than those already on the property ladder. More troubling is the thought that official consumer-price indices might overstate or understate inflation across the board. One line of economic research over the past decade has focused on whether official indices overstate inflation. The consensus is that they do, by failing to adjust sufficiently for improvements in the quality of goods and services, or the availability of newer, more innovative ones. In other words, because a $500 television today is much better than a $500 set of a few years ago it is, in effect, cheaper. This means that inflation is actually lower, for all consumers, than a simple price index would suggest.

America has made more progress than most other countries in adjusting its main index, the CPI, for such changes. The effect of this is likely to be to save the government money, by reducing the rate at which pensions and benefits increase. Even so, a better, quality-adjusted CPI will still reflect only the average inflation faced by consumers. Pensioners could still be suffering a slightly higher inflation rate than younger Americans.

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* “Inflation Inequality in the United States”. Federal Reserve Bank of New York, Staff Report no. 173, October 2003

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Superconductivity

Full steam ahead?

Jun 3rd 2004
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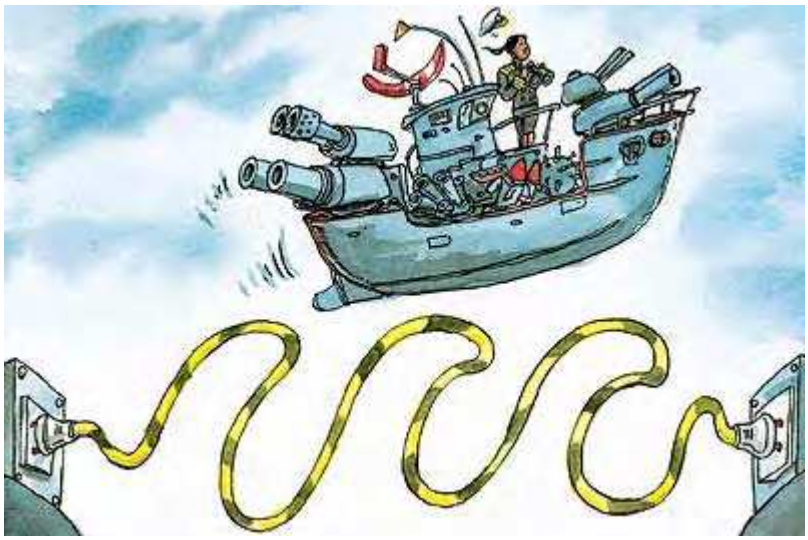

Superconductors are starting to become useful

A WAG once said of Brazil that it is tomorrow's country, and always will be. Superconductivity frequently suffers similar jibes. On the face of things, a technique that allows electricity to be transmitted without resistance should be ubiquitous. But the obstacles have proved insurmountable for all but niche applications, such as medical imaging.

Three things stand in the way of the wider use of superconductors. First, they need to be cooled well below room temperature. Second, those that need the least cooling are the most difficult to work with. Third, the passage of an electric current creates magnetism, and magnetism tends to destroy superconductivity.

But these obstacles are being overcome. As a result, superconductivity is starting to appear in applications as diverse as telecoms and electric motors. There is even talk of reaching superconductor nirvana: using them for controlling and transmitting large amounts of electrical power.

The future's taped

Superconductor Technologies, a company based in Santa Barbara, California, is building superconducting filters for mobile-phone base stations. In common with all the other putative mass-market applications of superconductivity, the materials in question are so-called high-temperature superconductors (HTSs). High-temperature is a relative concept. These materials need to be cooled with liquid nitrogen (a mere -196°C). But that is cheap compared with the liquid helium (-269°C) used to cool traditional superconductors, such as those employed in medical imaging. There is, however, a price to pay. HTSs are ceramics, and thus much harder to shape and work than traditional superconductors, which are metals. This difficulty is an especially important factor when what is required is something that will do the same job as a traditional wire.

Superconducting Technologies' devices, though, are not wires. They are chips with superconducting surfaces. No flexion is involved, so using rigid ceramics is not a problem. The superconductor's lack of resistance allows the firm to build filters that can chop a signal into much narrower frequency bands than

a traditional filter. This, in turn, translates into improved performance. In a recent test on a commercial network, using superconducting filters increased that network's capacity by half.

Mobile-phone networks are an important market, but a specialised one. The hope in the industry is that HTSs will be taken up in more traditional, but bigger electrical-engineering applications. This is the sort of thing that American Superconductor, a firm based in Westborough, Massachusetts, is working on.

American Superconductor believes it has cracked the most difficult fabrication problem of HTSs, turning them into the equivalent of wire. Ceramics cannot be drawn in the way that metal is. Instead, American Superconductors and its rivals powder the stuff and pack it into silver tubes. The tubes, being metallic, can be drawn. They can also be plaited together to form cables, heated to improve the contact between the superconducting grains, and rolled flat. The result is flexible tapes that can be used in a similar way to wires.

One application of these tapes is in electric motors. And, as is often the way with new technologies in America, the government has conveniently created a market opportunity. It did so by announcing four years ago its intention to convert the country's navy to a fleet powered by electric motors.

Accordingly, American Superconductor has been using its tape to build superconducting motors. The first, a small one producing 5 megawatts, was delivered to the navy a year ago, and has completed its tests successfully. As a result, a 36.5 megawatt motor will be delivered next year. This motor is easily big enough to propel a destroyer (it is just a tad less powerful than were the engines of the *Titanic*). But, according to Greg Yurek, American Superconductor's boss, it will be a third of the weight of its conventional alternative.

American Superconductor is also starting to infiltrate another area of heavy electrical engineering: power transmission. The first application the firm has in mind is a niche in this market, but it is an important one: stabilising the grid in order to prevent power failures. In January, the firm installed a prototype “synchronous condenser” designed to provide this stability to an electrical sub-station in Tennessee. Large-scale electricity transmission usually uses alternating current, in which both current and voltage oscillate. Crashes occur when the two get out of sync. The condenser's job is to stop this happening.

American Superconductor and its competitors are also engaged in a race to make superconducting tape that could be used to carry power on the grid itself. The challenge here is twofold. The first is to create tapes that can support large currents undisturbed by the magnetic fields those currents create. The second is to scale up the processes by which the tapes are made, to allow mass production.

The current record-holder for current, as it were, is SuperPower, a firm based in Schenectady, New York. In March, it transmitted 120 amps over a distance of 50 metres—three times better than the best previous result. The trick in this tape—and other so-called “second-generation” tapes—is that a thin layer of the superconducting ceramic is sandwiched between two layers of metal. Such a thin layer alters the current flow in a way that reduces the current's susceptibility to magnetic interference. It also results in a tape that costs a third to a fifth as much to make.

SuperPower is now scaling up its production capacity. By next year it should be able to make cables a third of a kilometre long. It plans to use one of these to connect two sub-stations in Albany, New York. Shorter, experimental segments have already been tried elsewhere, but the significance of the Albany project is that it will be using superconducting cables in a completely commercial environment. Then, perhaps, superconductivity's tomorrow will truly have arrived.

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About sponsorship

Nanomedicine

A bunch of rosettes

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A piece of nanotechnology that might not be hype

Get article background

PERSUADING human bodies to accept foreign implants is a challenge. If those implants are living organs, the challenge can be met by tissue-matching and powerful drugs which suppress the immune system. But if the implant is a synthetic hip- or knee-replacement, it is a question of sticking it in and keeping one's fingers crossed. Such an artificial joint may integrate successfully with the bone to which it is attached, or it may not. So Thomas Webster of Purdue University, in Indiana, and Hicham Fenniri, of the University of Alberta, in Edmonton, Canada, hope to make the process more reliable by employing nanotechnology.

Though the term nanotechnology is bandied about promiscuously by grant-hungry researchers keen to jump on the latest bandwagon, it is, in this case, an appropriate one. That is because the osteoblast cells that secrete the mineral matrix of bone are most comfortable on surfaces whose bumps measure a few nanometres (billionths of a metre) across. And it is bumps of this size that Dr Webster and Dr Fenniri propose to provide.

The Webster-Fenniri nanobumps are stacks of triangular molecules arranged in layers. Each layer of a stack contains six triangles, like wedges of a Camembert cheese. And each of the triangles has a side made of guanine, a side made of cytosine, and a side made of one of a number of “wild-card” molecules that will fit into the available space.

Guanine and cytosine are two of the components of DNA, and it is their intimate love of bonding to one another that helps to hold the DNA double helix together. In this case, that love of bonding means the triangles fit together in a way that presents the wild-card molecule to the outside world. The tops and bottoms of the hexagonal rosettes are also attracted to one another. As a result, stacks of rosettes several millimetres long can form.

The trick is to get these stacks to stick to the surface of an implant, and thus form a suitable habitat for osteoblasts. Fortunately, implants are often made of titanium, a metal that is covered with a negatively charged layer of oxide. To get the stacks to bond to titanium, all that is necessary is to make the wild-card a molecule that has a positive charge on the outside. Two wild-cards that will do this are amino acids called lysine and arginine—molecules more familiar as two of the building blocks of proteins.

To see if they could create a conducive habitat for osteoblasts, Dr Webster and Dr Fenniri coated some titanium plates with stacks made in this way and put them in dishes containing suspensions of osteoblasts that had been coloured with a fluorescent dye for easy observation. Of the 2,500 osteoblasts in each dish, 2,300-2,400 adhered within a few hours to titanium coated with the stacks. Only 1,500 cells attached themselves to titanium with no coating. If that were replicated in a real replacement joint, it would greatly increase the chance of the joint integrating successfully with the bones it was attached to.

And that is only the beginning. Osteoblasts have receptors on their surfaces which recognise and stick to particular sequences of amino acids—for example lysine-arginine-serine-arginine, and arginine-glycine-aspartate. So, by adding serine, glycine and aspartate to their mixture, Dr Webster and Dr Fenniri hope to improve adhesion rates still further. They also hope to deploy their stacks for other purposes. By adding different mixtures of amino acids, they think they can encourage adhesion between other sorts of cells. That might, for example, promote wound healing. They could also attach molecules called growth factors to the stacks. These promote the proliferation of particular cells and could be used to treat, for example, anaemia.

Indeed, their rosette stacks may prove to be a perfect drug-delivery device. Suitably doctored, they could be made to carry a drug molecule, bind specifically to a protein found only on the surface of one particular sort of cell, and then penetrate the cell's membrane like a nano hypodermic needle, injecting the drug as they did so. That, if it came to pass, truly would be nanotechnology in action.

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Scientific publishing

Sloppy stats shame science

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What is published in scientific journals may not be as true as it should be

SCIENTIFIC and medical journals, with their august panels of peer reviewers and fact checkers, are not the sort of places many mistakes are to be expected. Yet Emili García-Berthou and Carles Alcaraz, two researchers at the University of Girona in Spain, have found that 38% of a sample of papers in *Nature*, and a quarter of those sampled in the *British Medical Journal* (*BMJ*)—two of the world's most respected journals—contained one or more statistical errors. Not all of these errors led to erroneous conclusions, but the authors of the study, which has just been published in *BMC Medical Research Methodology*, another journal, reckon that 4% of the errors may have caused non-significant findings to be misrepresented as being significant.

Dr García-Berthou and Dr Alcaraz investigated 32 papers from editions of *Nature* published in 2001, and 12 from the *BMJ* in the same year. They examined the numbers within each, to see whether the data presented actually led to the statistical conclusion the authors drew, and also whether there was anything fishy about the numbers themselves. Appropriately, they used a statistical technique to do their checking. If a set of data are “unedited”, the last digits in the numbers recorded will tend to have the values 0-9 at random, since these digits represent small values, and are thus the ones that are hardest to measure. If those numbers are rounded carelessly, however, 4s and 9s (which tend to get rounded up to the nearest half or whole number) will be rarer than they should be. The two researchers duly discovered that 4s and 9s were, indeed, rarer than chance would predict in many of the papers under scrutiny.

False data, false results. Though it was difficult to show whether, in any given case, this falsity led to a result being proclaimed statistically significant when it was not, it was possible to estimate how much error there was likely to be. In one case, however, there was no doubt. A number supposed to be statistically significant was explicitly mis-stated, and a false inference drawn in the paper's conclusion.

Of course, mistakes will creep through from time to time in the best-run organisations, and there is no suggestion that any of the errors observed was a deliberate fraud. But there do seem to have been rather a lot of them. However, as Kamran Abbasi, deputy editor of the *BMJ*, laments, although the world at large looks at scientific peer-review—the system journals use to keep their authors accurate and honest—as a sacred process, it is in fact imperfect. “We certainly do not spend our time recalculating all these numbers, and our whole review process would likely grind to a halt if we tried to do so.”

Maxine Clarke, publishing executive editor of *Nature*, says her journal will be examining the papers cited by Dr García-Berthou and Dr Alcaraz before deciding what action, if any, needs to be taken. “At first sight, some awareness-raising about statistical accuracy among manuscript editors, peer-reviewers and proof-readers seems necessary, but we have changed our workflows considerably since the period studied,” says Ms Clarke.

One cure might be for researchers to publish raw data as well as statistical analysis and conclusions. That way, anyone who really cares can check the sums. For some years, *Nature* has offered supplementary information online to accompany its papers. This information is peer-reviewed, but Ms Clarke believes it is too specialised for people outside the field to find interesting. “We do not explicitly ask authors, as routine, for the raw data underlying their reported statistical results,” she says. “This suggestion is now on the agenda for our next editorial meeting on editorial practices and criteria.”

The real answer, however, surely lies with the researchers themselves. Far too many scientists have only a shaky grasp of the statistical techniques they are using. They employ them as an amateur chef employs a cook book, believing the recipes will work without understanding why. A more *cordon bleu*

attitude to the maths involved might lead to fewer statistical soufflés failing to rise.

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About sponsorship

Global warming

An injection of innovation

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Vaccinating livestock may be a way to slow global warming

Get article background

BURPING sheep and cattle may not sound much of a hazard, but their burps contain methane, and methane is a powerful greenhouse gas. In Australia, a place with a lot of livestock, this methane amounts to 13% of the country's greenhouse-gas emissions. That is a tempting target for politicians looking for ways to meet Kyoto protocol targets without having to curb consumer lifestyles.

But how do you stop a sheep burping? André-Denis Wright, of the Commonwealth Scientific and Industrial Research Organisation's laboratory in Perth, has an idea. The methane is generated not by the animals directly, but by bacteria that live in those animals' stomachs. So a vaccine against these methane-generating bacteria should switch off the gas supply. On top of that—and of more direct interest to farmers—methane-producing microbes consume over a tenth of the food the animals eat, making cattle less beefy.

In a forthcoming paper in *Vaccine*, Dr Wright and his colleagues describe the progress they are making towards such an inoculation. Most methanogens, as the gas-producing stomach bugs are known, are not true bacteria. They actually belong to a class of micro-organisms called the archaea, whose separate existence was recognised only recently. The archaea are not well understood, and are difficult to grow in a laboratory. And if a bug cannot be grown in a laboratory, then a vaccine against it cannot be made.

Indeed, Dr Wright's first attempt fell at this hurdle. Constrained by what he could grow, he made a vaccine against a mixture of seven of the methanogens that he was able to grow from cow and sheep guts. It did not work.

At that point he decided to try a different tack. Instead of restricting himself to those stomach bugs he could grow, he sought to identify the full range of what was there using a new technique called environmental genomics. This trick, pioneered by Craig Venter in the United States, breaks all of the DNA in a sample of liquid from, say, a stomach, up into small pieces. It then sequences each piece to establish the order of the genetic “letters” in it, and uses a computer to fit the pieces back together by matching the overlaps between the sequences of letters. That way, if all goes well, the genomes of the bugs in a sample will emerge from the soup of pieces, and the organisms can be identified without the need to grow them.

The researchers surveyed the microbial populations of 17 sheep stomachs in this way, and revealed several new species of methanogen, including some from a group of archaea not previously known to inhabit digestive tracts. Crucially, knowing the genomes of these ungrowable organisms allowed Dr Wright to identify close relatives that it was already known could be grown. He used three of these relatives to make a new vaccine, and got an 8% reduction in methane production from the sheep he vaccinated.

Not a bad start, and certainly enough to prove the point. Dr Wright is now extending his “library” of sheep methanogens by taking samples from around Australia, in order to discover how much variation there is. He is also planning to extend the work to cattle, which are ten times as gassy, but are too big to fit in the current generation of gas-collecting boxes. If he succeeds, he will be the toast of both environmentalists and ranchers—a rare and enviable coincidence of views.

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Britain in bloom

Potty about planting

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Rex Features

The British nurture their gardens with care. But who's nurturing whom?

NAPOLEON called England a nation of shopkeepers: given the demise of the British high street, it would be more appropriate today to call it a nation of gardeners. The bicentenary of the Royal Horticultural Society (RHS) this year has spawned a green-fingered fever across a country where gardening is already a national pastime; where more than 15% of the population has a conservatory; where television gardeners are national heart-throbs; and where almost everyone has an opinion on rhododendrons.

“We believe that growing plants makes people's lives better,” says Andrew Colquhoun, chief executive of the RHS, a charity that runs gardens and education centres across Britain, and is organising a profusion of celebrations for its 200th birthday. Since 1804, the group has ballooned from a handful of botanists who pooled their resources and sent plant collectors across the empire in search of specimens (one of the founders, Joseph Banks, travelled with Captain Cook on the *Endeavour*), to one of the largest subscription associations in the country. In the past 20 years, membership has grown from 70,000 to 345,000.

A Little History of British Gardening
By Jenny Uglow

North Point Press; 256 pages; $35.
Chatto & Windus; £15.99

Buy it at
Amazon.com
Amazon.co.uk

The boom is confirmed by a visit to last week's sell-out Chelsea Flower Show, a hardy perennial where the show's gardens elicit strong opinions. “It looks hideous—like Tenerife,” sniffs one passer-by at a gold-medal-winning garden. Another enthusiast from Scotland is hoping to buy a prized oriental poppy from a grower. “It's so sexy, I just can't stop thinking about it,” he confesses. Carol Klein, a Chelsea veteran whose medal-winning garden designed in waves of colour was applauded by the *Financial Times*, says gardens are “the only opportunity for most people to create something that is theirs and to put their hands in the earth. It's one of the most fundamental human experiences.”

A short walk along the Thames, at Tate Britain, an exhibition entitled “Art of the Garden” opened on June 3rd and runs until August 30th to coincide with the RHS bicentenary. In its first room hangs a Turner view of an Italianate garden looking out to the continent from the Isle of Wight. Facing it are two of Constable's most cherished paintings: his views of his father's vegetable garden and his mother's flower garden, on the family's Suffolk farm. One view is outward, exploratory and international; the other inward, reflective and intensely national. In their different ways, both artists encompassed ideas about the art of the garden in Britain.

“This show is about how gardens have been embedded in the British consciousness over the past 200 years,” says Martin Postle, its co-curator. Mr Postle, himself a passionate gardener, is interested in how gardening fits into the social history of Britain. The show features many works by artists who are now unfashionable, or indeed forgotten, from Helen Allingham's watercolours of the cottage gardens created by the legendary garden designer Gertrude Jekyll, to Miss Jekyll's own copies of Turner, whose palette inspired her planting.

Plots to be seen and heard

Why are the British so potty about planting? Some answers can be found in “A Little History of British Gardening”, by Jenny Uglow. Published in America this month, this addictive book is essential reading for anyone who wants to understand not only British gardening but also British culture. Ms Uglow links Britons' gardening obsession to several causes, but predominantly to the smallness of the island. “Because of the scarcity of land, the gradual enfranchisement of people and their social improvement had always been seen in terms of land. When you own a stake in the land—however small—your status and self-expression is bound up in that.”

Like Mr Postle, Ms Uglow also talks about gardening as an expression of Britishness. In 1707 the Act of Union with Scotland made Great Britain a single nation. The *Spectator*, the most important gardening magazine of the time, advocated a particular British taste as distinct from the French and Dutch gardens that had influenced the previous century. Whereas continental gardens looked down on nature from above, from a terrace or a balustrade, and controlled nature with enclosed gardens, topiary and canals, the British garden became about moving through nature, about experiencing it rather than just looking at it.

Walking through a garden circuit, such as the great landscapes of Stourhead or Stowe, became like walking through a series of classical landscape paintings by Poussin and Claude. Such gardens, planted by the aristocracy, were designed to demonstrate British informality as opposed to continental artifice. They were meant to display the culture of their owners, influenced by Addison's advice: “Make a landscape of your possessions.”

Today, the enthusiasm for gardening encompasses every sector of society. In cities such as Birmingham, so-called Coriander Clubs have sprung up, where Asian women plant their native herbs and spices on disused land and African nurseries grow exotic tropical plants that were once unseen on British shores. Ms Uglow chuckles at a man in Norwich who blankets his banana plants in bubble wrap each winter to guard against the cold—he is not so different from the pineapple pioneers of the 17th century.

There is still snobbery, with people being judged by the contents of their trolley at garden centres. But gardening now, as in Shakespeare's time, is a language that everyone in Britain understands. It will change with fashion and technology, concludes Ms Uglow, but in important ways it will remain the same: “We may think that we are tending our garden, but of course, in many different ways, it is the garden and the plants that are nurturing us.”

A Little History of British Gardening.
Jenny Uglow
North Point Press; 256 pages; $35.
Chatto & Windus; £15.99

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About sponsorship

The gardens of Versailles

A grovy kind of place

Jun 3rd 2004
From The Economist print edition

More bits restored with American help

ON JUNE 12th, one of the 15 ornamental groves in the gardens of Versailles will be officially reopened after ten years of reconstruction. It marks the latest in a series of American gifts to restore the great creation for Louis XIV of André Le Nôtre and Charles Le Brun. After the second world war John D. Rockefeller gave millions to restore the place, convinced that the chateau and its gardens were of wider than French significance. Americans then responded generously to storm damage in the 1990s, and now the American Friends of Versailles have given $4m and years of voluntary work to help French experts recreate the *Bosquet des Trois Fontaines* (the Three Fountains Grove).

Among the chief glories of Le Nôtre's vision, the ornamental groves were intimate spaces. Concealed from view by façades of trellised hornbeam surrounding thick copses of lime or chestnut, their sculptured terraces and fountains were intended to be discovered one by one like successive scene changes in a baroque opera. The design of the Three Fountains Grove was reputed to bear the imprint of the king's own hand.

Gardening can be an expensive pastime. Le Nôtre and Le Brun got through 1.5m “livres” (over $250m at today's prices) in the first two years after they began laying out the park at Versailles in 1661. Trees take longer than stone walls to reach maturity, so the first groves and parterres were planted before work began on the palace itself. Created as the backdrop to spectacular royal entertainments, the park was seen from the start as theatrical decor. Passages of hornbeam flanked the main alleys to allow servants to pass to and fro without intruding on the spectacle.

For four decades Le Nôtre hardly paused for breath, draining marshes, extending perspectives, planting, shaping, cutting down and replanting, as the king's fancy and changing tastes dictated. As many as 36,000 gardeners and earth-shifters toiled to meet the royal deadlines. By the time of Le Nôtre's death (in 1700) domestic plumbing was still unknown to the townsfolk outside the walls, but the Versailles gardens boasted more ornamental fountains than any place on earth. To supply the huge reservoirs, miles of aqueduct were constructed and rivers were diverted by fantastic pumping projects dreamed up by top military engineers.

Pierre-André Lablaude, chief architect of historical monuments and author of a comprehensive book on the gardens of Versailles, pieced together the authentic condition of the grove in the late 17th century from visual references and written accounts of the day. His team had to revive forgotten construction techniques and find obsolete materials. A disused stone quarry, the indispensable source of a rare configuration of sandstone swirls, had to be restored to working order. When digging began, the remains of terraces and structures destroyed by centuries of neglect and the ravages of war were found buried under dense undergrowth.

While Mr Lablaude's team turns its attention to other jewels among the groves, the American Friends of Versailles are planning to provide transport for the disabled as their next act of philanthropy. This is particularly appropriate. For the Sun King continued to show off his treasures from a wheeled perambulator when he was incapacitated by gout late in his 72-year reign. (Part of a pitted marble ramp to help him get around was uncovered in the recent restoration.) And the gardens and palace of Versailles were always intended to be freely accessible to all the sovereign's subjects, on condition only that gentlemen wore their swords.

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D-Day landings

The long shadow

Jun 3rd 2004
From The Economist print edition

FRANZ-OLIVIER GIESBERT is a French novelist, biographer, television presenter and newspaper editor: in other words, an average French “intellectual”. Except that, as he reveals in this arresting book, he and his mother were violently beaten throughout his childhood by a tormented father, a former American GI who never recovered from the anguish of having lived through D-Day. The book is a bestseller in France, one of a crop of books confessing to dark relationships with members of an author's family. There are no plans as yet to publish it in English.

L'Américain
By Franz-Olivier Giesbert

Gallimard; 174 pages; euro15.50

Buy it at
Amazon.fr

The author's father, Frederick Giesbert, was the son of a German immigrant to America who taught painting at the Art Institute of Chicago. He was brought up in a comfortable, educated world, in an intellectual circle which included Saul Bellow and that was centred on the University of Chicago. The family had a second home on the shores of Lake Michigan.

At the age of 20, assigned to the American army's 29th division, Frederick landed in a sea stained red on Omaha Beach, Normandy. Under Nazi fire, he picked his way past the dismembered body-parts of friends he knew: from New York, from Nebraska. “He remained all his life in a state of shock, scarcely able to smile, his soul wounded to the core,” writes his son, “for having survived by leaving behind him the dying carcasses of so many friends.” As the young man advanced up the beach, he could not look back. The American soldiers formed “floods of fresh flesh”, sent to drown the German lines. “Behind them, the beach was filled with the remorse that would never cease to torment my father.”

During that summer of 1944, as American bombs fell on German positions across Normandy, the young GI met a local French nurse at a dance organised by her father. She fell for her American hero, and three years later they were married in Chicago. They returned with their first child, Franz-Olivier, to make their home in Normandy, where the habitual battering of both mother and son began.

Mr Giesbert does not dwell on the source of his father's agony and violence. He lets events speak for themselves. It was not the war, he writes, so much as the unthinkable experience of that one day on June 6th 1944. The American soldier, who adopted the country he helped to liberate, lived the trauma in different ways. He detested America: its music, its fashions, its consumerism. He was godless, ascetic, anti-materialist. He preferred the company of animals to humans, and was tender with them. He lived for years on a Normandy farm, but could not bear the sight of an animal being killed.

More complicated for the author is his own failure to forgive his father, above all for the way he abused his mother. Much of his childhood was spent defying, ignoring or plotting to kill the man. “I have spent my life trying to forgive myself”, are the opening lines of the book. He wrote it, he explains, “to free myself from the grief of never having given my father the chance to speak to me and to forgive him.” The only time he recalls kissing his father was when his corpse was already cold.

This is a small, tight, awful book, but one that in some ways says as much about the events in Normandy in 1944 as do many of the far weightier texts that it can honourably sit beside.

L'Américain.
By Franz-Olivier Giesbert.
Gallimard; 174 pages; euro15.50

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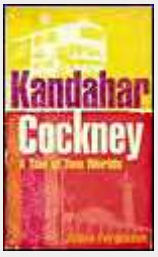
Seeking asylum in Britain

From dead end to East End

Jun 3rd 2004
From The Economist print edition

IF EVER the old saw that you should be careful what you wish for needed proving, this book would do it. To his credit, James Fergusson, a journalist with a big heart, admits to misgivings when he helped his one-time translator, an Afghan named only as Mir, gain asylum in Britain. Mir was a deserving case: for working with the BBC and a British newspaper, the *Independent*, in Mazar-e-Sharif when the city in northern Afghanistan was still held by the Northern Alliance, he would have been a marked man when it was finally taken over by the Taliban in 1998. Mir's relations did indeed suffer: some of them were arrested and tortured by the victorious fundamentalists, horrors that the book brutally recounts.

Kandahar Cockney: A Tale of Two Worlds
By James Fergusson



HarperCollins; 376 pages; £16.99

Buy it at
Amazon.co.uk

Most people would consider that helping Mir leave Afghanistan and then shepherding him through the maze that is British immigration policy would already have gone beyond any reasonable moral obligation. But Mr Fergusson—sporadically sometimes, it is true—has kept in touch with Mir ever since he arrived in England. The book he has written about Mir's difficult transition from war-ravaged Afghanistan to London's East End is remarkable: a travel book about Mr Fergusson's own country, much of it seen through the eyes of bewildered Afghans.

One can well live a lifetime in London knowing nothing about the vast South Asian communities that cluster in the city's East End, where Queen's Market at Upton Park feels more like a bazaar in Lahore or Delhi than anything native to England. Not too many Anglo-Saxon Londoners have attended, as Mr Fergusson has, sermons in the city's great mosques and attempted to probe the roots of Islamic radicalism there. Fewer still have entered the twilight world of immigration tribunals and processing centres to which those in search of “exceptional” or “indefinite leave to remain” are consigned.

The book is filled with anecdote: some of it delightful, as when Mr Fergusson attempts to help Mir yet again by getting him work clearing his father's garden in west London. After a day of heavy toil, the young Afghan refused to accept any payment from the father of so honoured a friend. Or the day when Mr Fergusson and his exotic Scottish-Croatian girlfriend, Monika, take Mir and his relations from land-locked Afghanistan for their first-ever sight of the sea. The young Afghans, it seems, were as impressed by Monika's blonde hair as they were by the water.

Much of the reportage, however, is anything but delightful. As Mir's tale unfolds, it darkens. A cousin, whom Mr Fergusson's efforts also helped bring to Britain, fails to prosper as Mir does, and at last falls foul of the criminal courts, convicted on a rape charge of which Mr Fergusson thinks he is demonstrably innocent.

This is a moving and intelligent book. Culture-clash is a hoary old theme, no doubt: but few people have done it better, and fewer have taken such trouble to explore their own cities in order to find it.

Kandahar Cockney: A Tale of Two Worlds.
By James Fergusson.
HarperCollins; 376 pages; £16.99

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Sondheim on Broadway

Shooting for a Tony

Jun 3rd 2004
From The Economist print edition

Success, the second time around

“ASSASSINS”, Stephen Sondheim's musical on the unlikely theme of presidential killers, has been nominated seven times for the Tony awards, Broadway's Oscars, which are due to be handed out on June 6th—a striking achievement for a show which, at one point, looked as if it were destined to be forever out of step with its times. When it was first seen, in a limited engagement off Broadway in 1991, America was newly at war in the Gulf. It was an inopportune political backdrop against which to open a musical about presidential assassination—even one written by Mr Sondheim, the avowed doyen of contemporary American composers.

Although a London premiere late in 1992 helped to place “Assassins” on the musical map, the show's New York chances continued to seem oddly jinxed: its long-planned Broadway debut, scheduled for the autumn of 2001, was scrubbed immediately after September 11th. In April this year, however, the show finally opened on Broadway and, although America is once again at war, the signs this time round suggest that the timing was auspicious. Joe Mantello's production has already been extended once in its Manhattan berth at the Studio 54 theatre, and a second extension looks likely.

Whatever else “Assassins” does or doesn't win, its very persistence makes the show the odds-on favourite in the Tony category of “Best Revival of a Musical”, displacing an earlier favourite, “Wonderful Town”, a 1953 Leonard Bernstein musical that hails from a more innocent time.

“Assassins” is not the first Broadway show to find itself, as it were, performing better in its encore. The John Kander-Fred Ebb musical “Chicago”, for instance, ran for nearly 900 performances in its first Broadway incarnation during the 1970s. But that was nothing when compared with the 3,000-plus performances that the revival has clocked up so far since it reopened on Broadway in 1996—where it shows no signs of closing. Its joyous cynicism, which may have proved too much nearly 30 years ago, seems to resonate instantly with today's audiences.

“Assassins”, in turn, has had its resonance amplified by recent events. In 1991, audiences may not have fully taken to the story of Samuel Byck, one of the eight presidential killers, or would-be killers, presented in the show. His aim (never achieved) in 1974 was to dive-bomb a commercial airliner into the White House, thereby assassinating Richard Nixon. Whereas he could once be seen only as a random nutter, he now seems uncannily to presage a post-September 11th psychosis. (It's only a shame that Mario Cantone, who plays the role of Byck—in which the Irish actor Ciaran Hinds shone in the London production—allows theatrical gimmickry to unbalance his performance.)

It is as if history has finally caught up with the show. Whereas “Assassins” may once have seemed merely fanciful—a show about miscreants on the margins—the people of whom it sings have in some way moved centre stage over a period in which (and not only in New York) everyone has come to feel themselves to be a potential target.

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Worldwide fiction bestsellers

The big book index

Jun 3rd 2004

Last month's favourite fantasies

FOR the first time we list the bestselling fiction titles sold last month on Amazon web sites around the world: there's a motley assortment, from Harry Potter in Japanese to the luscious "Life of Pi". One to watch? The fast-moving upwardly mobile "The Rule of Four".

1 The Da Vinci Code.
By Dan Brown.
Doubleday; 454 pages; $14.97. Corgi Adult; £6.99

The classy page-turner continues to beat the field; its quirky combination of murder among the masterpieces, the Fibonacci sequence and a search for the Holy Grail has already spawned non-fictional supporting material and several readalikes. The ultimate flattery? It may be about to be removed from its top slot by one of its better imitators, "The Rule of Four", currently at three.

Buy from Amazon.com

2 Harii Pottaa to Fushichoo no kishidan.
By J.K. Rowling. Translated by Yuko Matsuoka.
Say-zan-sha Publications; 2 volumes; ¥4,000

Harry's wizardry keeps the Japanese Potter flying off the shelves.

Buy from Amazon.co.jp

3 The Rule of Four.
By Ian Caldwell and Dustin Thomason.
Dial Press; 384 pages; $16.80. Century £6.99

Brainy Princeton roommates and a mysterious manuscript combine in this tale of suspense published only last month. It's Dan Brown, Umberto Eco and Donna Tartt in equal measures.

Buy from Amazon.com or Amazon.co.uk

4 The Five People You Meet in Heaven.
By Mitch Albom.
Hyperion; 198 pages; $11.97. Little, Brown, £9.09

A fable on the meaning of life from the author of the hugely successful "Tuesdays with Morrie".

Buy from Amazon.com or Amazon.co.uk

5 Angels & Demons.
By Dan Brown.
Pocket Star; 608 pages; $7.99. Corgi Adult; £6.99

Vatican intrigue and high-tech suspense in another thriller from Dan Brown.

Buy from Amazon.com or Amazon.co.uk

6 The Song of Susannah (The Dark Tower,Book 6).
By Stephen King.
Donald M. Grant; 432 pages; $20.40. Hodder & Stoughton; £12

The penultimate book in the epic Dark Tower series from a master of horror.

Buy from Amazon.com or Amazon.co.uk

7 A Hat Full of Sky.
By Terry Pratchett.
HarperCollins; 320 pages; $11.89. Doubleday; £6.49

Eleven-year-old heroine Tiffany Aching battles the Forces of Darkness in Terry Pratchett's latest fantasy romp.

Buy from Amazon.com or Amazon.co.uk

8 The Jane Austen Book Club.
By Karen Joy Fowler.
Putnam; 304 pages; $16.76 and £11.73

Six Californians discuss Austen's novels in this witty comedy of manners.

Buy from Amazon.com or Amazon.co.uk

9 The Narrows: A Novel.
By Michael Connelly.
Little, Brown; 416 pages; $15.57. Orion; £10.49

More for addicts of suspense as a retired homicide cop, Harry Bosch, confronts the worst serial killer of all.

Buy from Amazon.com or Amazon.co.uk

10 The Secret Life of Bees.
By Sue Monk Kidd.
Penguin; 336 pages; $9.80. Review; £6.39

A coming-of-age story of female power and love set in the early 1960s.

Buy from Amazon.com or Amazon.co.uk

11 Life of Pi.
By Yann Martel.
Harvest; 336 pages; $11.20. Canongate; £6.39

A heartwarming tale of survival, faith and a shipwrecked Bengal tiger. Winner of the 2002 Man Booker prize.

Buy from Amazon.com or Amazon.co.uk

12 Hidden Prey.
By John Sandford.
Putnam; 400 pages; $16.17 and £12.59

Detective Davenport gets to grips with a dead Russian in the 15th "Prey" novel.

Buy from Amazon.com or Amazon.co.uk

13 The Full Cupboard of Life: More from the No. 1 Ladies' Detective Agency.
By Alexander McCall Smith.

Pantheon; 208 pages; $13.96. Polygon; £5.59

The intuitive Precious Ramotswe once more exposes the mysteries of the human heart in the heat of Botswana.

Buy from Amazon.com

14 Memorial Day.
By Vince Flynn.
Atria; 416 pages; $15.57. Simon & Schuster; £12.59

A counter-terrorist battles to foil a catastrophic nuclear attack on New York.

Buy from Amazon.com or Amazon.co.uk

15 Ten Big Ones: A Stephanie Plum Novel.
By Janet Evanovich.
St Martin's Press; 320 pages; $17.65 and $9.09

High-adventure comedy featuring America's favourite bounty-hunter.

Buy from Amazon.com or Amazon.co.uk

Source: Global orders from Amazon.com, Amazon.co.uk, Amazon.ca, Amazon.fr, Amazon.de and Amazon.jp from April 25th-May 29th. Prices quoted from Amazon.com and Amazon.co.uk are correct as of June 1st.

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Roger Straus

Jun 3rd 2004
From The Economist print edition

Roger Straus junior, an old-style publisher, died on May 25th, aged 87

AP

SOMEWHERE in most writers' imaginations—among the half-formed plots, steamy first paragraphs and swirling, sparkling adjectives—lurks a figure called the Gentleman Publisher. He wears a tweed jacket and bow tie and sits in an office crammed with great works of literature, all of which he has read. He is shrewd but understanding and, though he may not put much money up-front, knows how to push a book with all the right people. Settling in his deep armchair, knocking out his pipe on the fireplace, he is like a favourite uncle whose only mission is to bring an author to the world's attention.

This largely mythical figure and Roger Straus, who founded Farrar, Straus and Giroux and headed it until his death, sometimes seemed to have little in common. Mr Straus was loud, profane, elegant (double-breasted suits, cravats, lilac socks) and relished a good brawl with his “cocksucker” rivals. He often talked of publishing in terms of hand-to-hand combat, as though he and Dick Snyder were about to face off with pistols in Central Park. Though well read, he wore it lightly, and liked to pose as the poor *schmuck* who needed his authors to support him. “Fuck you” was once his cheerful rejoinder to a famous writer seeking an advance.

Yet he thought of publishing in civilised, old-fashioned terms, as a noble profession rather than a matter of vertical integration and brand management. He was justly proud of the literariness of his house—T.S. Eliot, Flannery O'Connor, Colette, Isaac Bashevis Singer, Robert Lowell, Alexander Solzhenitsyn—as well as deeply attached to its two chief money-spinners, Scott Turow and Tom Wolfe. Many of his authors were also his friends. Having noticed and encouraged Mr Wolfe before anyone else did, he managed to hang on to him against the odds; he assiduously nursed and promoted Singer, believing him the best writer of the 20th century; and when Susan Sontag was too busy writing, he would post her letters for her.

His office on New York's Union Square was famously grubby and chaotic, suggesting that his mind was on higher things, and he kept a regular table in the Union Square Café, implying that a slow, good lunch was important to his transactions. All this, and the fact that his name remained firmly on the company stationery, seemed to make him an extraordinary survival on the world publishing scene.

In fact, FSG had not withstood the tide of corporate takeovers that began in 1960, when Knopf merged with Random House. Mr Straus, loathing the idea of being “a division of Kleenex, or whatever”, held off the circling sharks until 1994; then, realising that his son Roger Straus III wanted only to be a photographer, he sold his controlling interest to the Georg von Holtzbrinck Publishing Group. Since the Germans were agreeably laisser faire, he stayed in charge, lilac socks and all.

Money in molasses

Some might suppose he had a charmed life. He was born into oodles of money, to a mother who was a Guggenheim heir and a father whose family owned Macy's department store. Yet, as he revealed two years ago in an interview in the *New Yorker*, his Jewishness often worked against him. Mr Straus felt victimised at his Episcopalian private school. One potential business partner, James Van Alen, would not join him because he did not want his name beside a Jew's on the letterhead. Until 1961, he could not

bring himself to go to the Frankfurt book fair. In later years he proudly called himself “a New York Jew”, but it had taken time. It was his sense of himself as an outsider, as well as the difficulty of competing for authors in the early years, that drove him in a most unAmerican way to look for good writers abroad.

By doing so he worked a small miracle. With John Farrar, he had started his company in 1946 almost as a caprice, on a loan against his future inheritance. (Before the war Mr Straus had worked on the *White Plains Daily Reporter*, but thought that newspapers were good only to “wrap up fish”.) The first books he published were GI war stories. In 1950, however, he stumbled on a star, Gayelord Hauser, who promised Americans longevity from low lavatory seats and molasses. With the earnings from “Look Younger, Live Longer” the company expanded, snaffling up good small houses, and drew in Bob Giroux from Harcourt, Brace as editor-in-chief.

Mr Straus continued to follow his nose into poetry and *belles lettres*. Several of his authors went on to win Nobel prizes. He could have had more star names on his list had he not fallen out, through speaking his mind, with Jack Kerouac and Vladimir Nabokov. (He always denied turning down “Lolita”, but Nabokov saw it differently.)

His taste turned out to be the making of his house. From his Parnassian height, he often condemned the rest of his trade as “irresponsible” and “revolting”. He heaped scorn on the pile-'em-high-sell-'em-cheap philosophy of the day, the tying up of book retailing between Borders and Barnes & Noble, the six-figure advances that could never be recouped, the breathless chasing of star-names and the eclipse of good work by massive supermarket promotions of bestsellers. In his later years there was much to complain about in his noble profession; but also, as he showed every day, a huge amount to enjoy.

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Overview

Jun 3rd 2004
From The Economist print edition

Crude oil prices surged again this week following the attack by Islamic militants in Saudi Arabia. The price of West Texas Intermediate, a benchmark, rose at one point to $42.45 a barrel, its highest since the oil futures market was launched in New York in 1983. Prices then fell back to below $40 a barrel on hopes that OPEC would increase production.

Higher oil prices pushed the **euro area's** 12-month rate of consumer-price inflation up to 2.5% in May from a low point of 1.6% as recently as February. That is well above the 2% ceiling of the European Central Bank's inflation target. In the same month, inflation rose to 2.6% in **Belgium**, but remained steady at 2.3% in **Italy**.

The average unemployment rate in the **euro area** was unchanged at 9.0% in April. **France's** jobless rate held steady at 9.8%.

America's GDP growth was revised up to 4.4% at an annual rate in the first quarter of this year. Inflation, as measured by the core personal-consumption-expenditure deflator (ie, excluding energy and food) was revised down to an annualised 1.7%. The Institute for Supply Management's survey of manufacturing activity was stronger than expected in May. The overall index edged up to 62.8, while the employment index jumped to 61.9 from 57.8 in April, its highest level since April 1973.

Japan's 12-month rate of consumer-price deflation quickened to 0.4% in April from 0.1% in March. Industrial production surged by 8.5% in the year to April, the fastest pace of any country in our table. Japan's jobless rate stayed at 4.7% in April, down from 5.4% a year earlier.

Australia's GDP grew by only 0.2% in the first quarter, down from an increase of 1.3% in the fourth quarter of last year. This was much slower than expected and reduced the year-on-year growth rate from 3.9% to 3.2%. Non-farm GDP was flat in the first quarter, its weakest for three years. Despite slower growth, share prices in Sydney hit an all-time high as the Reserve Bank signalled that interest rates had probably peaked.

Canada's GDP grew by 0.6% in the first quarter, boosted by strong consumer spending and exports. However, output was up by only 1.6% on a year earlier.

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About sponsorship

Output, demand and jobs

Jun 3rd 2004
From The Economist print edition

% change on year ago

	GDP		The Economist poll GDP forecasts		Industrial production		Retail sales (volume)		Unemployment % rate	
	latest	qtr*	2004	2005	latest		latest		latest	year ago
Australia	+ 3.2 Q1	+ 0.9	+ 3.9	+ 3.1	– 0.9	Q4	+ 7.7	Q1	5.6 Apr	6.2
Austria	+ 0.8 Q4	+ 0.4	+ 1.6	+ 2.0	+ 2.5	Feb	+ 2.6	Mar	4.4 May	4.4
Belgium	+ 1.9 Q1	+ 2.4	+ 1.9	+ 1.9	+ 5.4	Mar	nil	Mar	12.3 May†	11.4
Britain	+ 3.0 Q1	+ 2.5	+ 3.2	+ 2.7	– 0.6	Mar	+ 6.1	Apr	4.7 Feb††	5.1
Canada	+ 1.6 Q1	+ 2.4	+ 2.7	+ 3.3	+ 1.9	Mar	+ 2.5	Feb	7.3 Apr	7.6
Denmark	+ 1.3 Q1	+ 2.3	+ 1.9	+ 2.2	+ 0.7	Mar	+ 5.3	Feb	6.5 Apr	5.9
France	+ 1.7 Q1	+ 3.1	+ 1.8	+ 2.1	+ 1.5	Mar	+ 2.9	Mar	9.8 Apr	9.6
Germany	+ 1.5 Q1	+ 1.8	+ 1.4	+ 1.6	+ 0.5	Mar	– 0.7	Mar	10.5 Apr§	10.7
Italy	+ 0.8 Q1	+ 1.7	+ 1.0	+ 1.7	– 0.6	Mar	– 2.1	Feb	8.5 Jan	8.9
Japan	+ 5.4 Q1	+ 5.6	+ 3.3	+ 2.0	+ 8.5	Apr	– 2.2	Mar	4.7 Apr	5.4
Netherlands	+ 0.8 Q1	+ 1.7	+ 0.8	+ 1.6	– 1.0	Mar	– 4.6	Feb‡	6.4 Apr**	4.9
Spain	+ 2.8 Q1	+ 2.4	+ 2.8	+ 2.9	+ 8.0	Mar	+ 4.5	Mar	11.1 Mar	11.4
Sweden	+ 1.9 Q4	+ 2.2	+ 2.4	+ 2.4	+ 2.2	Mar	+ 3.5	Apr	5.4 Apr†	4.6
Switzerland	nil Q4	+ 1.8	+ 1.6	+ 1.8	+ 1.7	Q4	+ 5.4	Mar	3.9 Apr†	3.6
United States	+ 5.0 Q1	+ 4.4	+ 4.7	+ 3.6	+ 4.8	Apr	+ 8.0	Apr	5.6 Apr	6.0
Euro area	+ 1.3 Q1	+ 2.3	+ 1.6	+ 2.0	+ 1.0	Mar	+ 0.9	Mar	9.0 Apr	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*									
Finland	+ 1.6 Q4	+ 1.1	na	na	+ 0.7	Apr	+ 4.8	Mar	10.6 Apr†	10.4
Greece	+ 4.1 Q1	+ 3.0	na	na	+ 3.8	Mar	+ 6.4	Feb	na	na
Iceland	+ 4.9 Q4	na	na	na	– 0.3	2002	na		3.5 Mar†	4.0
Ireland	+ 2.7 Q4	na	na	na	+ 5.9	Mar	+ 5.0	Mar	4.4 Apr	4.4
Luxembourg	+ 2.1 2003	na	na	na	– 1.2	Dec	+ 3.9	Dec	4.3 Mar	3.7
New Zealand	+ 3.2 Q4	+ 2.4	na	na	+ 3.2	Q4	+ 8.0	Q1	4.3 Q1	4.9
Norway	+ 0.5 Q4	+ 2.4	na	na	+ 5.9	Mar	+ 2.1	Apr	4.5 Q1	4.4
Portugal	– 0.5 Q4	– 1.0	na	na	– 3.2	Apr	+ 3.6	Apr	6.4 Q1†	6.4

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Dec-Feb; claimant count rate 2.9% in Apr. §EU harmonised rate 9.3% in Mar. **Feb-Apr.

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Prices and wages

Jun 3rd 2004
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2004	2005	latest		year ago	latest		year ago
Australia	+ 2.0	Q1	+ 3.4	+ 2.2	+ 2.5	– 1.1	Q1	+ 3.0	+ 5.1	Q1	+ 4.4
Austria	+ 1.6	May	+ 1.1	+ 1.3	+ 1.4	+ 5.2	Apr	+ 0.8	+ 2.2	Apr	+ 2.2
Belgium	+ 2.6	May	+ 1.0	+ 1.4	+ 1.5	+ 2.6	Apr	+ 0.2	+ 1.9	Q1	+ 2.4
Britain	+ 1.2	Apr*	+ 1.5	+ 1.5	+ 1.8	+ 1.8	Apr	+ 1.6	+ 5.2	Mar†	+ 3.3
Canada	+ 1.6	Apr	+ 3.0	+ 1.6	+ 2.0	+ 1.5	Apr	– 0.5	+ 3.0	Mar	+ 1.6
Denmark	+ 0.8	Apr	+ 2.5	+ 1.4	+ 2.0	+ 1.6	Apr	– 0.5	+ 3.7	Q4	+ 3.9
France	+ 2.1	Apr	+ 2.0	+ 1.9	+ 1.6	+ 1.3	Apr	+ 1.0	+ 2.7	Q4	+ 3.5
Germany	+ 2.1	May	+ 0.7	+ 1.2	+ 1.1	+ 2.4	Apr	– 3.8	+ 1.4	Mar	+ 3.6
Italy	+ 2.3	May	+ 2.7	+ 2.2	+ 2.1	+ 1.7	Apr	+ 2.0	+ 2.8	Apr	+ 1.7
Japan	– 0.4	Apr	– 0.1	– 0.2	nil	+ 0.5	Apr	– 0.8	+ 0.7	Apr	+ 1.8
Netherlands	+ 1.5	May	+ 2.0	+ 1.3	+ 1.3	+ 0.6	Dec	+ 4.2	+ 1.7	Apr	+ 3.0
Spain	+ 2.7	Apr	+ 3.1	+ 2.3	+ 2.4	+ 2.6	Apr	+ 1.4	+ 3.3	Q4	+ 3.9
Sweden	+ 0.3	Apr	+ 2.3	+ 0.8	+ 1.6	– 0.2	Apr	– 0.1	+ 1.5	Mar	+ 1.5
Switzerland	+ 0.9	May	+ 0.4	+ 0.4	+ 0.8	+ 0.7	Apr	– 0.3	+ 1.4	2003	+ 1.8
United States	+ 2.3	Apr	+ 2.2	+ 1.9	+ 1.8	+ 3.7	Apr	+ 2.4	+ 2.2	Apr	+ 3.0
Euro area	+ 2.5	May	+ 1.8	+ 1.7	+ 1.6	+ 1.4	Apr	+ 1.7	+ 2.5	Q4	+ 3.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	– 0.4	Apr	+ 1.1	na	na	+ 0.3	Apr	– 0.3	+ 4.1	Q1	+ 4.1
Greece	+ 2.9	Apr	+ 3.4	na	na	+ 2.8	Apr	+ 1.0	na		na
Iceland	+ 3.2	May	+ 2.2	na	na	+ 5.0	May	+ 3.0	+ 4.0	Apr	+ 5.6
Ireland	+ 1.4	Apr	+ 4.3	na	na	– 4.1	Apr	– 7.5	+ 6.1	Q4	+ 6.4
Luxembourg	+ 2.1	Apr	+ 2.2	na	na	+ 0.1	Dec	+ 1.3	– 0.4	Dec	+ 0.7
New Zealand	+ 1.5	Q1	+ 2.5	na	na	– 0.6	Q1	– 1.3	+ 2.2	Q1	+ 2.3
Norway	+ 0.4	Apr	+ 2.9	na	na	+12.2	Apr	– 4.9	+ 4.6	Q1	+ 5.3
Portugal	+ 2.3	Apr	+ 3.7	na	na	+ 1.1	Apr	+ 2.0	+ 2.6	Mar	– 2.6

*New series. RPI inflation rate in April: 2.5%. †Jan-Mar.

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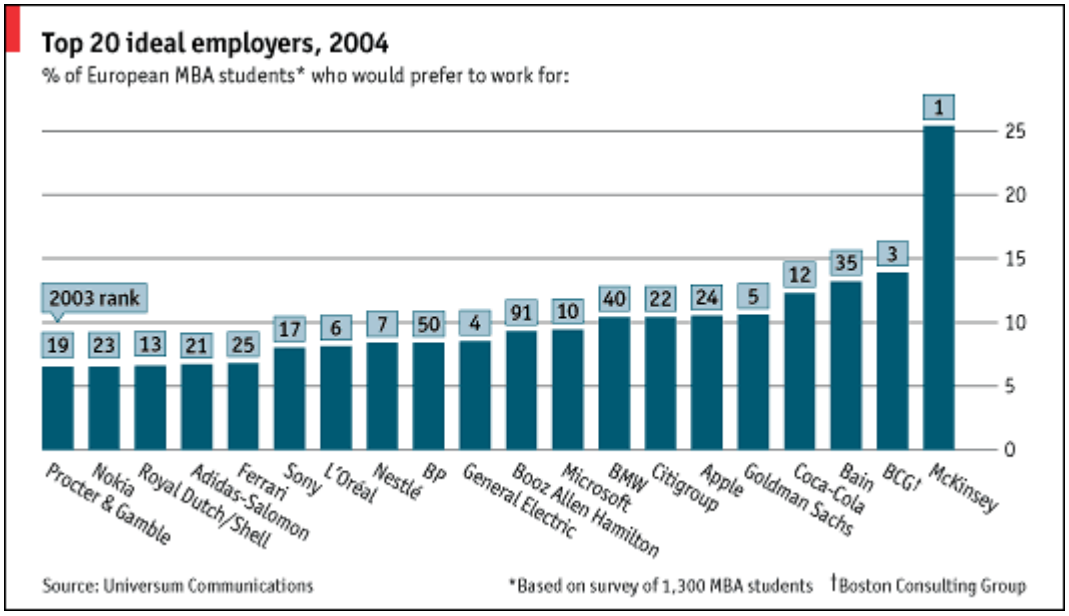
Top 20 ideal employers, 2004

Jun 3rd 2004
From The Economist print edition



McKinsey is reckoned in a recent survey to be European MBA students' most desirable employer. The firm maintained its top ranking from last year. Other consultancies, some of which have fallen out of students' favour in recent years, have rebounded. For example, Booz Allen Hamilton returned to the top 20 from 91st place last year, and Bain took third place. L'Oréal and Nestlé slipped slightly in the rankings.

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Money and interest rates

Jun 3rd 2004
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Jun 2nd 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 7.0	+11.0	Apr	5.49	4.78	5.15	5.88	4.87	6.68
Britain	+ 4.7	+ 7.0	Apr	4.63	3.59	4.96	5.20	4.06	5.95
Canada	+12.6	+ 8.6	Apr	2.01	3.13	3.16	5.14	4.41	6.25
Denmark	+ 8.8	+ 8.8	Apr	2.25	2.41	2.63	4.49	3.85	5.48
Japan	+ 4.1	+ 1.9	Apr	0.02	0.02	0.14	1.55	0.51	1.63
Sweden	+ 0.5	+ 2.2	Mar	1.98	2.98	2.98	4.69	4.10	3.10
Switzerland	+ 9.9	+ 4.1	Apr	0.26	0.28	1.14	2.80	2.13	2.59
United States	+ 6.8	+ 4.9	Apr	1.20	1.18	2.63	4.73	3.29	6.12
Euro area†	+10.9	+ 5.6	Apr	2.09	2.19	2.56	4.31	3.63	4.13

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.43%, Japan No. 260 1.56%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.25%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Jun 3rd 2004
From The Economist print edition

1995=100

	May 25th	Jun 1st*	% change on one month	% change on one year
Dollar index				
All items	96.1	97.6	– 2.0	+26.8
Food	94.4	95.4	– 4.5	+22.9
Industrials				
All	98.3	100.6	+ 1.4	+32.3
Nfa†	96.3	96.9	– 1.2	+25.6
Metals	99.9	103.8	+ 3.5	+38.1
Sterling index				
All items	83.7	83.8	– 4.3	+12.5
Euro index				
All items	104.4	105.0	– 3.1	+21.6
Yen index				
All items	114.7	114.2	– 1.9	+17.3
Gold				
$ per oz	387.75	395.25	+ 0.9	+ 8.4
West Texas Intermediate				
$ per barrel	41.14	42.35	+ 8.8	+38.0

* Provisional. † Non-food agriculturals.

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Stockmarkets

Jun 3rd 2004
From The Economist print edition

Market indices

	Jun 2nd	2004 high	2004 low	% change on one week	% change on record high	% change on Dec 31st 2003 in local currency	% change on Dec 31st 2003 in $ terms
Australia (All Ordinaries)	3,473.1	3,473.1	3,274.9	+ 1.5	nil	+ 5.1	– 2.6
Austria (ATX)	1,843.3	1,985.9	1,568.9	nil	– 7.2	+19.3	+16.1
Belgium (Bel 20)	2,414.7	2,517.3	2,244.2	– 0.3	–34.4	+ 7.6	+ 4.7
Britain (FTSE 100)	4,422.8	4,575.7	4,309.4	– 0.3	–36.2	– 1.2	+ 1.7
Canada (Toronto Composite)	8,374.8	8,898.8	8,123.5	+ 0.7	–26.5	+ 1.9	– 3.2
Denmark (KBX)	227.7	241.3	219.0	+ 2.0	–24.5	+ 6.6	+ 3.9
France (SBF 250)	2,482.4	2,594.4	2,411.5	– 0.3	–43.5	+ 2.9	+ 0.2
(CAC 40)	3,646.2	3,811.4	3,465.3	– 0.4	–47.3	+ 2.5	– 0.3
Germany (DAX)	3,888.3	4,151.8	3,726.1	+ 0.5	–51.8	– 1.9	– 4.6
Italy (BCI)	1,291.6	1,340.3	1,239.5	+ 0.5	–40.8	+ 2.8	nil
Japan (Nikkei 225)	11,242.3	12,163.9	10,365.4	+ 0.8	–71.1	+ 5.3	+ 2.4
(Topix)	1,136.9	1,217.9	1,022.6	+ 0.9	–60.6	+ 8.9	+ 6.0
Netherlands (AEX)	334.5	364.8	323.0	nil	–52.3	– 0.9	– 3.6
Spain (Madrid SE)	832.4	881.7	808.0	– 0.2	–27.4	+ 3.0	+ 0.3
Sweden (Affarsvarlden Gen)	199.2	218.1	188.5	+ 0.8	–50.2	+ 5.8	+ 2.3
Switzerland (Swiss Market)	5,631.7	5,934.4	5,469.0	– 0.7	–33.1	+ 2.6	+ 2.1
United States (DJIA)	10,263.0	10,737.7	9,906.9	+ 1.5	–12.5	– 1.8	– 1.8
(S&P 500)	1,125.0	1,157.8	1,084.1	+ 0.9	–26.3	+ 1.2	+ 1.2
(NASDAQ Comp)	1,989.0	2,153.8	1,876.6	+ 0.6	–60.6	– 0.7	– 0.7
Europe (FTSE Eurotop 300)*	982.5	1,026.2	957.9	nil	–42.4	+ 2.6	– 0.2
Euro area (FTSE Ebloc 100)*	828.2	888.3	806.7	nil	–46.6	– 0.4	– 3.1
World (MSCI)†	1,044.9	1,085.8	997.0	+ 1.2	–27.9	+ 0.8	+ 0.8
World bond market (Citigroup)‡	593.6	619.5	575.1	+ 0.8	– 4.2	– 1.7	– 1.7

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Jun 3rd 2004
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		Current account The Economist poll % of GDP, forecast 2004	Current account The Economist poll % of GDP, forecast 2005	Exchange rate trade-weighted† 1990=100 Jun 2nd	Exchange rate trade-weighted† 1990=100 year ago	Currency units per $ Jun 2nd	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2004‡
Australia	− 16.8	Apr	− 33.0	Q1	− 5.2	− 4.5	82.8	83.1	1.43	1.50	2.64	1.76	1.30	0.5
Austria	+ 1.0	Mar	− 1.3	Mar	− 0.3	− 0.6	103.1§	102.0	0.81	0.86	1.50	–	0.74	-1.3
Belgium	+ 22.1	Mar	+ 8.0	Dec	+ 3.7	+ 3.8	103.2§	102.0	0.81	0.86	1.50	–	0.74	-0.2
Britain	− 83.3	Mar	− 30.8	Q4	− 2.5	− 2.5	105.9	97.9	0.54	0.61	–	0.67	0.49	-2.9
Canada	+ 45.2	Mar	+ 18.5	Q4	+ 1.7	+ 1.1	84.8	85.9	1.36	1.36	2.51	1.67	1.23	1.2
Denmark	+ 9.8	Mar	+ 6.4	Mar	+ 2.5	+ 2.4	106.3	106.9	6.06	6.36	11.2	7.44	5.50	0.9
France	+ 4.9	Mar	+ 10.0	Mar	+ 1.0	+ 0.9	106.8§	105.2	0.81	0.86	1.50	–	0.74	-3.8
Germany	+166.7	Mar	+ 63.3	Mar	+ 2.4	+ 2.4	104.5§	102.5	0.81	0.86	1.50	–	0.74	-3.7
Italy	+ 2.0	Mar	− 18.6	Mar	− 0.9	− 1.0	76.2§	75.0	0.81	0.86	1.50	–	0.74	-3.1
Japan	+118.0	Mar	+153.2	Mar	+ 3.2	+ 3.2	133.4	127.1	110	119	203	135	–	-7.1
Netherlands	+ 32.4	Mar	+ 18.7	Q1	+ 2.3	+ 2.5	102.7§	101.4	0.81	0.86	1.50	–	0.74	-3.1
Spain	− 54.8	Feb	− 25.3	Feb	− 2.9	− 2.9	77.2§	76.4	0.81	0.86	1.50	–	0.74	0.3
Sweden	+ 21.5	Apr	+ 21.2	Q1	+ 5.6	+ 5.4	81.2	81.5	7.44	7.81	13.7	9.13	6.75	0.2
Switzerland	+ 7.9	Apr	+ 32.9	Q4	+10.3	+10.1	113.7	113.3	1.24	1.31	2.29	1.53	1.13	-1.6
United States	−560.4	Mar	−540.9	Q4	− 5.1	− 5.0	97.3	102.4	–	–	1.84	1.23	0.91	-4.7
Euro area	+ 98.2	Mar	+ 47.6	Mar	+ 0.5	+ 0.4	90.4	91.5	0.81	0.86	1.50	–	0.74	-2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 15.0	Mar	+ 10.9	Mar	na	na	82.3§	81.0	0.81	0.86	1.49	–	0.74	1.6
Greece	− 26.8	Mar	− 10.3	Mar	na	na	59.7§	59.0	0.81	0.86	1.49	–	0.74	-3.2
Iceland	− 0.3	Apr	− 0.6	Q4	na	na	98.6**	97.7	71.7	73.5	132	88.0	65.1	0.2
Ireland	+ 42.8	Mar	− 3.0	Q4	na	na	94.4§	93.0	0.81	0.86	1.49	–	0.74	-0.5
Luxembourg	− 3.6	Feb	+ 2.5	Q4	na	na	103.2§	102.0	0.81	0.86	1.49	–	0.74	-1.8
New Zealand	− 2.3	Apr	− 3.5	Q4	na	na	100.0	98.1	1.60	1.72	2.95	1.96	1.45	2.9
Norway	+ 28.2	Apr	+ 29.7	Feb	na	na	98.0	100.1	6.68	6.91	12.3	8.20	6.06	10.4
Portugal	− 14.2	Feb	− 8.1	Feb	na	na	94.0**	92.5	0.81	0.86	1.49	–	0.74	-3.8

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, March average. ‡OECD forecast. **IMF, February average.

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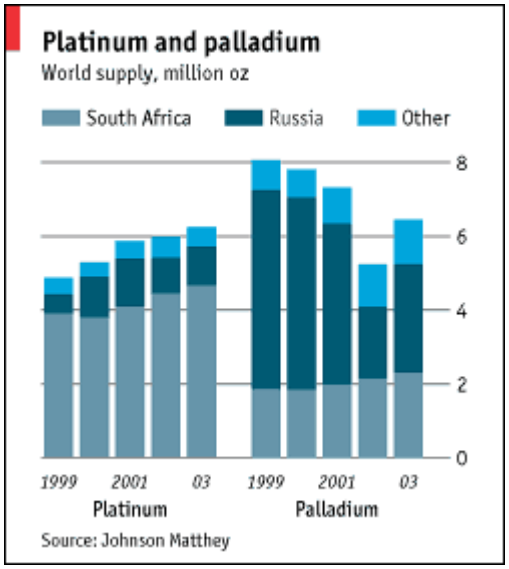
Platinum and palladium

Jun 3rd 2004
From The Economist print edition

The supply of palladium grew by 23% last year, as Russian output recovered. Platinum supplies rose by only 5%, and prices hit a 24-year high in April.



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Overview

Jun 3rd 2004
From The Economist print edition

Hong Kong's economy is accelerating. Its GDP grew by 6.8% in the year to the first quarter, up from growth of 4.9% in the year to the fourth quarter.

Brazil's GDP grew by 2.7% in the year to the first quarter. Boosted by a boom in farm exports, the country's trade surplus widened to $28.0 billion in the year to May, from $27.4 billion in the year to April. May's monthly trade surplus was $3.1 billion, a record.

Worries that Yukos, **Russia's** giant oil company, might go bankrupt helped push the country's stockmarket down by almost 10% in the week to June 2nd.

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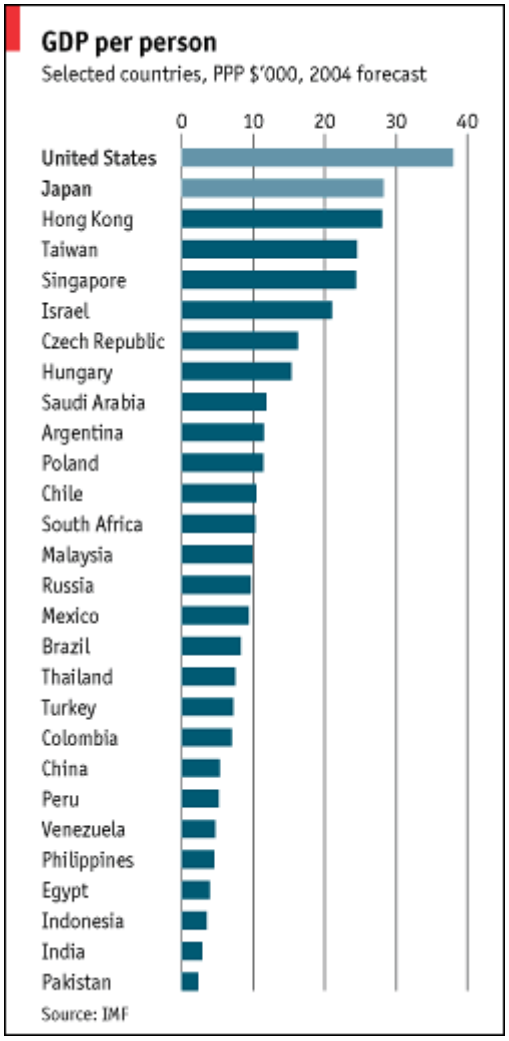
GDP per person

Jun 3rd 2004
From The Economist print edition

Comparisons of economic output on a purchasing-power parity (PPP) basis take account of the variations in prices of the same goods in different countries. Unlike comparisons at market exchange rates, PPP reflects the real purchasing power of each country's residents. In PPP terms, Japan's output per person is about three-quarters of America's. Output in Poland is $11,400 in PPP terms, compared with $5,700 at market exchange rates. India's output per person in PPP terms is $2,800, which is about 7% of per-person output in America, and around half of China's.



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Economy

Jun 3rd 2004
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.8	Q1	+19.1	Apr	+ 3.8	Apr	+14.7	Apr	+45.9	2003	439.8	Mar
Hong Kong	+ 6.8	Q1	– 6.1	Q4	– 1.5	Apr	–11.4	Apr	+17.4	Q4	122.1	Apr
India	+10.4	Q4	+ 6.7	Mar	+ 3.5	Mar	–15.6	Apr	+ 3.2	Q4	113.0	Apr
Indonesia	+ 4.5	Q1	+ 5.1	Jan	+ 6.5	May	+27.9	Apr	+ 7.8	Q3	36.1	Mar
Malaysia	+ 7.6	Q1	+13.2	Mar	+ 1.0	Apr	+20.4	Apr	+12.3	Q4	53.4	Apr
Philippines	+ 6.4	Q1	–11.0	Mar	+ 4.1	Apr	– 1.7	Mar	+ 3.3	Dec	13.4	Apr
Singapore	+ 7.5	Q1	+22.2	Apr	+ 1.3	Apr	+15.5	Apr	+27.6	Q1	99.1	Apr
South Korea	+ 5.3	Q1	+11.3	Apr	+ 3.3	May	+25.1	Apr	+21.9	Apr	163.6	Apr
Taiwan	+ 6.3	Q1	+12.8	Apr	+ 0.9	Apr	+15.2	Apr	+27.4	Q1	227.7	Apr
Thailand	+ 7.8	Q4	+ 7.7	Apr	+ 2.4	May	+ 3.4	Mar	+ 7.5	Apr	41.9	Mar
Argentina	+11.3	Q4	+ 6.0	Apr	+ 3.1	Apr	+14.2	Mar	+ 7.9	Q4	15.8	Apr
Brazil	+ 2.7	Q1	+11.9	Mar	+ 5.3	Apr	+28.0	May	+ 5.9	Apr	51.6	Mar
Chile	+ 4.8	Q1	+ 4.9	Apr	– 0.3	Apr	+ 5.0	Apr	– 0.1	Q1	16.0	May
Colombia	+ 3.8	Q1	+ 7.1	Mar	+ 5.5	Apr	+ 0.2	Feb	– 1.4	Q4	11.3	Apr
Mexico	+ 3.7	Q1	+ 6.4	Mar	+ 4.2	Apr	– 5.7	Apr	– 9.1	Q1	61.6	Mar
Peru	+ 5.5	Mar	+ 7.9	Mar	+ 2.8	Apr	+ 1.3	Mar	– 0.6	Q1	9.7	Mar
Venezuela	+29.8	Q1	+43.2	Mar	+23.1	Apr	+17.8	Q1	+12.3	Q1	17.2	Feb
Egypt	+ 3.1	2003†	+ 2.6	2003†	+ 5.5	Dec	– 6.0	Q4	+ 3.9	Q4	13.6	Feb
Israel	+ 3.9	Q1	+10.9	Mar	– 1.5	Apr	– 5.4	Apr	– 0.2	Q4	27.0	Apr
South Africa	+ 1.9	Q1	+ 3.1	Mar	+ 0.2	Apr	+ 1.5	Apr	– 1.5	Q4	8.6	Apr
Turkey	+ 6.1	Q4	+14.9	Mar	+10.2	Apr	–23.7	Feb	– 9.0	Mar	32.9	Mar
Czech Republic	+ 3.1	Q4	+15.3	Mar	+ 2.3	Apr	– 2.5	Apr	– 5.7	Q4	26.1	Apr
Hungary	+ 4.2	Q1	+12.8	Mar	+ 6.9	Apr	– 3.9	Mar	– 6.5	Mar	10.0	Apr
Poland	+ 4.7	Q4	+21.9	Apr	+ 2.2	Apr	– 5.5	Mar	– 2.9	Mar	35.3	Mar
Russia	+ 8.0	Q1	+ 6.7	Apr	+10.3	Apr	+63.3	Mar	+35.3	Q1	78.9	Apr
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 5.7	Q4	+ 4.1	Apr	+ 1.3	Apr	– 2.0	Mar	– 1.2	Q1	1.3	Mar
Latvia	+ 7.4	Q4	+14.8	Mar	+ 5.0	Apr	– 2.2	Mar	– 1.1	Mar	1.4	Mar
Lithuania	+ 7.5	Q1	na		– 0.6	Apr	– 2.8	Mar	– 1.2	Q4	3.4	Mar
Slovakia	+ 4.7	Q4	+ 9.6	Mar	+ 8.0	Apr	– 0.4	Apr	nil	Mar	11.7	Mar
Slovenia	+ 2.5	Q4	+ 7.8	Mar	+ 3.8	May	– 0.8	Mar‡	nil	Mar	8.6	Feb
Pakistan	+ 5.1	2003†	+18.7	Jan	+ 6.0	Apr	– 1.9	Apr	+ 2.4	Q1†	11.5	Mar
Saudi Arabia	+ 6.4	2003	na		+ 0.3	Mar	+42.6	2002	+11.9	2002	21.6	Mar

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Jun 3rd 2004
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jun 2nd		Dec 31st 2003	
	Jun 2nd	year ago	Jun 2nd	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	15.3	2.85	1,643.5	+2.8	+ 4.7	+ 4.7
Hong Kong	7.80	7.80	14.4	0.53	12,201.8	+4.4	– 3.0	– 3.4
India	45.3	46.8	83.6	4.41	4,923.7	–3.1	– 15.7	– 15.2
Indonesia	9,445	8,153	17,407	7.51	719.0	+0.1	+ 3.9	– 7.3
Malaysia	3.80	3.80	7.00	2.95	806.4	+0.9	+ 1.6	+ 1.6
Philippines	55.7	53.1	102.7	7.50	1,526.9	+1.3	+ 5.9	+ 5.5
Singapore	1.71	1.73	3.14	0.75	1,792.0	+0.9	+ 1.6	+ 1.1
South Korea	1,165	1,200	2,147	3.89	804.4	+2.6	– 0.8	+ 1.5
Taiwan	33.4	34.6	61.6	1.10	5,875.7	–2.5	– 0.3	+ 1.3
Thailand	40.6	41.6	74.9	1.30	635.0	+4.2	– 17.8	– 19.8
Argentina	2.96	2.82	5.45	5.56	977.4	+3.7	– 8.8	– 9.6
Brazil	3.13	2.91	5.76	15.78	19,716.6	+3.4	– 11.3	– 18.2
Chile	642	713	1,182	1.68	7,184.6	+0.2	– 2.1	– 9.6
Colombia	2,728	2,849	5,027	7.80	3,086.0	+6.1	+ 32.2	+ 34.8
Mexico	11.4	10.4	21.1	6.57	9,981.9	–0.8	+ 13.5	+ 11.6
Peru	3.49	3.49	6.43	2.60	2,928.6	+1.7	+ 20.3	+ 19.5
Venezuela	2,951§	1,598	5,439	12.51	25,557.3	+2.4	+ 15.1	+ 11.2
Egypt	6.19	5.98	11.41	10.61	14,518.4	–0.4	+ 24.8	+ 24.3
Israel	4.55	4.39	8.39	1.00	576.2	+1.2	+ 7.8	+ 4.1
South Africa	6.46	8.20	11.9	8.20	10,317.9	+1.2	– 0.7	+ 2.6
Turkey	1,512,500	1,441,000	2,787,538	25.21	16,867.5	–2.1	– 9.4	– 15.9
Czech Republic	25.6	27.0	47.1	2.27	781.8	+1.5	+ 18.6	+ 19.1
Hungary	205	228	378	11.34	11,187.2	+0.8	+ 19.3	+ 20.7
Poland	3.80	3.82	6.99	5.90	23,738.4	+1.9	+ 14.0	+ 12.5
Russia	29.0	30.7	53.5	14.00	568.2‡	–9.8	– 0.5	+ 0.2
EMF (MSCI)*	1.00	1.00	1.84	na	430.0	+0.9	– 2.9	– 2.9
EMBI+†	1.00	1.00	1.84	na	281.7	+0.2	– 4.5	– 4.5

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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